MADURAI KAMARAJ UNIVERSITY

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Directorate of Distance Education

Madurai - 625 021.

M.Com.,
Second Year

English Medium
Group - B

MARKETING MANAGEMENT

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DIRECTORATE OF DISTANCE EDUCATION

M.COM., SECOND YEAR
ENGLISH MEDIUM

GROUP B

MARKETING MANAGEMENT

MADURAI KAMARAJ UNIVERSITY
MADURAI - 625 021.

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M.Com Second year
Marketing Management
Syllabus

Unit -I Definition of Marketing - The systems approach -Marketing process -Marketing functions -Marketing concepts

Unit - II Marketing Management - responsibilities - Marketing plans - planning process - Marketing mix - Marketing organisation - Responsibilities of marketing manager.

Unit - III Marketing Management and its environment -External uncontrollable forces-Trends in marketing environment - Environmental scanning.

Unit - IV Market Segmentation - Benefits of market segmentation - Bases from market segmentation - alternative strategies to market segmentation.

Unit - V Buyer Behaviour - Need for studying buyer behaviour - determinants of buyer behaviour - buying motives- buyer decision making process.

Unit-VI Product Planning and Development- Product Mix - Policies and strategies -Product life cycle, branding - packaging.

Unit - VII Price Mix-pricing objectives - factors influencing pricing - pricing methods - pricing policies and strategies.

Unit - VIII Promotion Mix- the process of communication in marketing - promotion strategies sales promotion - sales promotion objectives - kinds of sales promotion - Effectiveness of sales promotion-publicity - word of mouth information - telemarketing.

Unit - IX Channels of distribution - middleman in distribution -channel choice - Intensive Vs Extensive distribution. Factors influencing channel choice-Future of Middlemen.

Unit - X Social aspects of marketing - Social responsibility - Social functions of Marketing - Ecological aspects of marketing - Introduction of Eco-marketing - Eco Friendly exports.

Books for Reference

1. Philip Kotler - 'Marketing Management', Prentice Hall Publication.

2. William J Stantan - 'Fundamentals of Marketing'

3. Memoria and Joshi - 'An Introduction to Marketing'

4. Welter - 'Marketing Management'

5. Saxen - 'Marketing Management', Tata McGraw Hill Publishing Company

INTRODUCTION

Marketing has become a specialized branch of study under commerce and management. It is highly regarded both as a discipline and a profession, received widespread support from both the academicians and practicing managers in the country. The success of any firm or industry is largely determined by its ability in marketing the products. There have been vast changes in the production and distribution of goods throughout the world on account of advancement in technology, improvement in transport and communication, changes in fashion, increasing standard of living, rapid economic growth, increased knowlwdge of the consumers, etc. Keeping in mind all these facts, the subject "Marketing Management" has been introduced in the commerce curriculum.

This Self Instruction Study Material has been prepared in a simple and easily understandable language. Due diligence and care has been taken to present the contents in a lucid way. This study material has been divided into 10 units covering the prescribed syllabus. In each unit objective type questions, short answer and long answer type questions have been included to enable the students to test their level of understanding the subject. A student who develop interest in the subject and study with due attention may find it easy to follow and understand the various concepts of Marketing Management.

'Wishing all the readers a grand success"

MARKETING MANAGEMENT
SCHEME OF LESSONS

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UNIT 1 MARKETING

Structure

1.0 Introduction

1.1 Unit Objectives

1.2 Evolution of Marketing

1.3 Market, Marketing and Selling

1.4 Marketing

1.5 Importance of Marketing

1.6 Approaches to the Study of Marketing

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1.0 INTRODUCTION

Every country is interested in increasing the productivity in all spheres with the object of fulfilling all the wants and needs of the people. Thus, the factories, offices and commercial establishments are engaged in the production of variety of goods and services in order to fulfill the wants and needs of the people. In this direction, marketing is concerned with finding the consumers, deciding their exact requirements, producing the goods and handling the distribution including after sales service, giving guarantee etc. In other words, marketing is a special management function, just like organizing, staffing, financing and production.

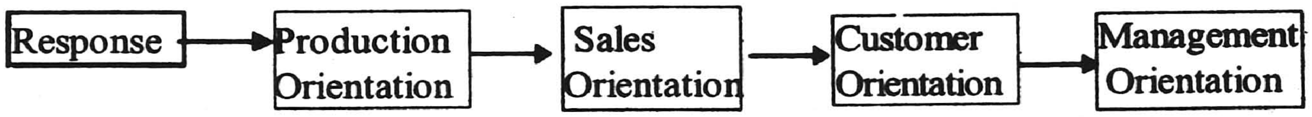
1.1 UNIT OBJECTIVES

- To appreciate the importance of marketing
- To understand the functions of marketing
- To analyse the various concepts of marketing

1.2 EVOLUTION OF MARKETING

The evolution of marketing refers to the development of marketing from its origin to the present stage. It can be studied under two stages its development prior to industrial revolution and its development after the industrial revolution. Some people also say that the modern marketing is called the child of industrial revolution. This is because once upon a time there was no such thing as marketing as people in those days were all self-sufficient and as such there was no need for trade. Therefore, it will not be wrong even if we say but for the industrial revolution, we would not have seen the present development of modern marketing. One can understand the evolution of marketing by referring to the quotation of William J. Stanton, which runs as follows: Marketing is born and grows as a society moves from a home handicraft economy of self sufficiency into a socio-economic system which involves division of labour, specialisation, factory industrialization, mass production and urbanization of population.

During the old stone age, man knew nothing but hunting and it was only in the new stone age, a little bit of agriculture appeared here and there and in such a backward economy people were largely self sufficient. As such the concept of marketing was not at all in existence then.



As time passed, certain people began to concentrate on the production of certain things in which they had excellency. This resulted in each man producing more than what he needed of something and not producing of something which he needed. Thus, division of labour started at this stage. This act gave way, to the development of certain handicrafts like weaving, pottery making carpentry, boat making etc. and resulted in the exchange of goods. Thus, the foundation was laid for trade and trade is the heart of marketing.

It is stated that about 4000 B.C. the first human civilization developed at a place called Mesopotamiat. Economic surpluses were noticed due to the presence of well-developed agriculture and artisans and craftsmen concentrated on the crafts in which they had dexterity. Now these people wanted to exchange their handicraft articles for food, raw materials and other necessaries. Thus, the very first marketing system in the form of barter trade (exchange of goods for goods) developed, people then, in possession of surplus products had to move out to find out people in possession of their requirements and to enter into negotiation on agreeable terms of exchange. Thus the next marketing process-in the form of search and negotiation developed. Later places were fixed for effecting exchanges. In course of time, these places were developed into stalls, shop bazaars and market squares. The difficulties experienced under the barter system induced the people to make use of beans, fish, hooks shells, pearls, tea, pepper and animals like cows, sheep

and pigs as medium of exchange. Gradually these were replaced by various kinds of metals and finally gold and silver were used as medium of exchange. It is stated that around 700 B.C. trade was well establishment in Mediterranean region and Central and Northern Europe. Thus, during this period a group of distributors called middlemen in the field of marketing appeared as E a connecting link between the producers and the consumers.

The middle ages faced economic chaos and mercantilism appeared early in the 16th century A.D. Home industries were protected and economic surpluses were achieved by excess of exports over import. Then laissez faire came into being which advocates that State interference in industry and commerce should be kept to the minimum.

Industrial revolution appeared first in Great Britain in the middle of 18th century which resulted in a complete change in the character of production. During this period factory system replaced home handicraft operations. These factories produced goods on mass scale which necessitated the growth of large scale enterprises to market these mass goods. Thus, automation in factories, scientific approach, biological researches etc. gave way to the development of the present complex field of marketing.

1.3 MARKET, MARKETING AND SELLING

1.3.1 Market

The word "market" is a derivation from Latin word "MARCATUS". This means merchandise, where trade or business is conducted. According to Cornot, "Economists understand by the term market not any particular place in which things are bought or sold but the whole of any region in which buyers and sellers are in such free intercourse with one another" Pyle states "Market includes both place and region in which buyer and seller, are in free intercourse with one another". In agreement with Cornot's definition it refers to perfect competition situation. From these definitions we can conclude that market may be referred to as an area of operation or the geographical or economic extent of the commercial demand of commodities. It may restrict itself to a locality, village or may even extend to a down, city or a country according to the demand of a commodity or product

1.3.2 Marketing

Marketing is a comprehensive term, which includes selling. Marketing is chiefly concerned with the needs of the consumers or buyers. It aims at satisfying the consumers by supplying his wants and needs in the form of products or services and earning profit to the concern. Marketing is directly concerned with the idea, of supplying the products needed by the customers and at the same time earning profit to the firm or company.

1.3.3 Selling

Selling is generally concerned with the plans and ideas of inducing the consumer to exchange his money for goods. Selling aims at increasing the sales volume of the firm. Therefore selling is preoccupied with the seller's need to convert his product into cash. Selling refers to the act of transfer of ownership of goods or services to a buyer in exchange

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of money. Through selling the tremendous output of factories, firms, forests and mines is distributed among the consuming units. The seller by means of his selling effort transfers the ownership of goods to the consumer. Thus, selling is concerned with the plans and ideas of inducing consumer to exchange his money for goods.

1.4 MARKETING

There are many definitions for the word "Marketing" given by eminent authors at different times. Let us study some of the definitions in their chronological order in order to have a better understanding of the subject matter.

In the Year 1933, the American Marketing Association defined, Marketing is concerned with the people and the activities involved in the flow of goods and services from producer to consumer. According to this definition one can understand that the activities involved in the physical distribution of goods and services can toe considered as marketing activities. It rather appears to be a production oriented definition.

In the year 1947, Paul Mazur has defined that "Marketing is the delivery of standard of living to society". According to Paul Mazur marketing activities aim at satisfying some needs or desires of society. Marketing activities supply the goods and services needed by the society. By providing these things continuously, it actually provided a standard of living to society. Therefore, he has stated that marketing provides a standard of living to the people.

In the year 1952, Malcom Me. Nair pointed out that Paul Mazur's definition fails to point out the nature of activities included in marketing though the vital viz. providing the standard of living to the society is imbibed in it. It shows that product planning falls within this definition because, here the marketing activities provide the product and product features the society demands. Therefore, Malcom Me. Nair expanded the definition to end as. "Marketing is the creation and delivery of a standard of living to society".

In 1960, the American Marketing Association has redefined marketing as "the performance of business activities that direct the flow of goods and services from producer to consumer or user". The committee has regarded the definition as, factual or descriptive.

In 1964, Cundiff and Stiff, eminent authors on the subject, defined marketing as follows: Marketing is the business process by which products are matched with markets and through which transfer of ownerships are effected. This definition stresses the importance of consumer. According to them the actual production of goods should conclude with actual market demand, to be successful in the field of marketing.

Thus, from the above definitions one can understand that marketing tries to bring the right type of goods or services in terms of company's objectives in the right-quantity at the right place and time at the right price so as to make a profit with right promotions. In other words, consumers become a fulcrum around which all marketing activities rally with a view to satisfy his need and earn profit of the concern. Thus marketing is responsible for

(a) the innovation and development of a product,

(b) promotion of entrepreneurial talents,

(c) development of an economy

(d) stimulation of consumption, and

(e) providing higher standard of living to the people.

1.5 IMPORTANCE OF MARKETING

Marketing plays a vital role in a country's economic development, particularly when the country becomes highly industrialized. It plays a dual role in helping the producer to increase the sales, volume on the one side and satisfying the consumer by providing his needs on the other side. These activities are not static but of changing nature. That is why, marketing is said to be the heart of man operations and responsible for the corporate existence.

Producers must know the preference of consumers and consumers must know what the manufactures can offer. For this there must be a connecting channel between the producer and consumers. Otherwise, the economic system may run out of gear, resulting in pilling of goods with retailers, wholesalers, and manufactures, closure of factories and retrenchment of workers. Moreover, consumers must be informed that the goods they need are available in their places and in the quantities they desire, at the time they need and the price they can afford to pay. Marketing does both these functions and helps the Maintenance of economic stability.

In a highly industrialized economy, production will be on large-scale basis due to technologies development which results in mass marketing. Thus producers earn more profits due to the increase in the sates-volume. This results in the expansion of the industry on one side and increased consumption by the consumers on the other side due to lower cost. Lower prices result in larger consumption, by consumers and thereby their standard of living is increased. Thus marketing helps us achieve, maintain and raise standards of living of the people.

Marketing plays an important role in increasing the national income. Efficiency in the marketing process results in lower cost of distribution. This in turn results in lower prices of the articles to consumers and thereby increases the purchasing power of the consumers. This brings about an increase in the national income.

Marketing aims at supplying the goods and services needed by the society: By providing full and complete flow of the goods and services needed by the society, it ensures fuller near full employment of the people.

Therefore employment and high level of business activity can be continued by continuous production of goods and its marketing. So marketing is essential for full or near full employment.

Marketing activities provide continuous information regarding the tastes and desires of the consumers, type of goods in demand etc., to the top management people who adjust the production according to the fluctuations in demand.

Marketing provides employment opportunities to a large number of people. For instance, in India one fourth of the money which buys the goods and services which make up the national income is earned by marketing profession.

Marketing is important both to the society and firm and it is only a part in the total social system.

1.6 APPROACHES TO THE STUDY OF MARKETING

Every one who expects to make a successful living in the field of marketing should need a clear grasp of its principles. Frequent losses or declines in profit in the business are also due to inadequate understanding of the principles of marketing. So, those who desire to engage in manufacturing, agriculture, banking, insurance or transportation need an understanding of marketing and its relation to their profession. Insurance companies are interested in the risk, connected with marketing operations, transport agencies are thus connected with movement of goods from place of production to consumption and between markets. People in various walks life are thus connected with marketing. So, the subject marketing needs study to understand its principles.

Generally, there are four approaches to the study of marketing. They are:

1. Functional Approach,
2. Commodity Approach,
3. Middlemen or Institutional Approach, and
4. Management Approach.

Each approach has its own merits and demerits. The four approaches are discussed below:

1.6.1 Functional Approach:

Marketing deals with, goods and services. To market the goods, services must be rendered, acts to be performed, & things to be done. These services or acts are commonly called functions. Generally, buying, selling, assembling, transportation, storage, standardization, grading, financing, risk taking, marketing information and marketing research will be called marketing functions.

A method which makes a study of marketing functions will be called Functional Approach. Under this method each marketing function will be analysed in detail. e.g. in the buying section the various kinds of buying (buying for consumption and buying for resale) estimating the demand, sources of supply, market news, seasonal variations in demand and consumers' preference will be studied.

Merits

1. Under this approach, a detailed study is undertaken regarding each function of marketing. So, it will enable to analyse the distribution process, to see just what is done, why it is done and who does it.
2. The same function may be studied once or several times. Sometimes, this functional approach will point out the ways of reducing the number of times a thing is done. So repletion can be curtailed with the help of this approach.
3. Often criticisms are arising that there are too many middlemen. This functional approach will help us, to know how the elimination of middleman will affect marketing process.

Demerits

1. Too much emphasis is laid on the various marketing functions instead of knowing how they are applied to the specific business operation.

1.6.2 Commodity Approach

Another approach to the study of marketing is to study the various commodities or goods, that are marketed an describe the ways in which they reach the consumers. This is known as the commodity approach.

Under this method, specific commodities are selected and they are closely followed, to see how it reaches the consumer from producer.

Merits

1. The commodity approach starts with families goods, and is a simple method and can be easily followed.
2. Another merit of this approach is that it gives a concrete result, since each product is studied separately and accurately.

Demerits

1. Since this approach requires long description of goods and operations, it is often described as a time consuming method.
2. Since most of the consumer products are studied in this way, this may result in duplication of work.

1.6.3 Institutional Approach or Middlemen Approach

The third method of studying marketing is to study operations of man and institutions engaged in marketing. This method is known as the middlemen or institutional approach. In the process of moving goods from producers to consumers a large number of persons take part who are known as producers, manufacturers middlemen and facilitating institutions like banks, insurance companies and warehouses. The institutions approach considers each of these organizations.

Merits:

1. This approach considers the operations of various middlemen or institutions which are engaged in marketing. So, it is practical approach.
2. In this approach emphasis is laid upon difference in types of institutions, services performed, goods handled and cost of operation.

Demerits:

1. Under this approach, the materials, presented are often too descriptive and it does not show effectively the inter-relations of the institutions studied.
2. This approach is descriptive and not analytical as the functional approach.

1.6.4 Decision Making or Management Approach

This approach combines certain features of the other three approaches which we have already discussed. This is the latest approach in marketing, as it is studied from the marketing management point of view. The areas of marketing decision are the marketing organization; the product, the distribution policies and physical distribution, pricing, advertising and personal selling.

The important advantage of this approach is that an attempt is made to find out how marketing decisions are and should be made.

The best approach to the study of marketing will be the business approach. The approach should include an investigation of the kinds of goods produced, institutions which deal with market and the marketing functions.

1.7 MARKETING SYSTEM

Marketing is a social system created by society for the purpose of furnishing it with the desired goods and services. Through this system, goods and service are moving from place of production to place of consumption from the hands of the manufactures to the hands of the consumers. This is an inevitable system for social and economic progress leading to a higher standard of living. In the words of Philip Kotler "the exchanges that take place in a society, along with the facilitating institutions make up it's the Marketing system". Thus, the marketing system includes the following:

1) all the business marketing institutions
2) the marketing environment
3) the customers served by marketing institutions and
4) the marketing tasks.

1.7.1 Business Marketing Institutions

The important institutions that are involved in the marketing system are, producers of raw materials, manufactures, and processors of finished or semi-finished goods: intermediaries such as wholesaler and retailers; facilitating institutions such as banks,

insurance companies and warehousing men. These institutions specialize in different types of activities.

Producers, manufactures and processors are primarily engaged in the production. They always perform one or more of the marketing functions. They produce goods according to the needs of the market. For this fundamental reason they are considered as the first marketing institutions.

Intermediaries are the institutions which specialize as the connecting link between the producer and consumer. These intermediaries are often called middlemen. There are two types of middlemen, called merchant middlemen and agent middlemen. Wholesalers and retailers prominent in distributing the consumer goods are merchant middlemen. These merchant middlemen wholesalers and retailers take title to the goods they handle. Wholesaler middlemen usually buy goods from the manufactures and supply to the retailers. Retailer middlemen sell goods primarily to the ultimate consumers. Department stores, chain stores, super markets, independent shopping centers are most common among the retailer middlemen.

Agent middlemen on the other hand do not have title to the goods which they handle. They are merely acting as the agents of the manufactures or wholesalers. They sell goods on commission basis. They sell goods on behalf of their principals. Brokers, commission agents and sales agents are common types of agent middlemen.

There are so many facilitating institutions and consultants in the field of marketing. These institutions do not take title to the goods but are helpful in performing the marketing functions. Transportation agencies, insurance companies, banks, marketing consultants, freight forwarders, warehousing men, and credit collection agencies are such facilitating institutions.

1.7.2 The Marketing Environment

Marketing decisions and activities are strongly influenced by environmental factors. It is the totality of forces and entities that surround and potentially affect the marketing of a particular product. Marketing environment is composed of two layers. They are the internal environment and the external environment that affect marketing. Internal environment which includes organization, products, brands, prices, distribution channels, advertising and personal selling could be very well controlled by the management. On the other hand, external environment which includes competition, political and legal forces, science and technology, sociological forces, psychological, cultural and economic factors could not be directly controlled by the management. Internal environment factors are called controllable forces and external environment factors are called uncontrollable forces. Thus, management in making decisions and taking actions on controllable forces must necessarily take uncontrollable forces into account.

1.7.3 The Customers

The customers served by the marketing institutions are of two types. They are ultimate or household consumers and industrial users.

Consumers (ultimate consumers) are those who consume products or service for the direct satisfaction of their wants. Thus, if an individual buys food, clothes and other articles of consumption for himself and his family members, they constitute ultimate consumers. Consumers constitute the consumer market.

Users (industrial users) are those who use the goods and services in the normal course of business for further production of goods and services to be utilized by the ultimate consumers as well as the other organizations. Thus if a manufacturer buys raw castor oil and other chemicals for preparing hair oil, he is the industrial user. The industrial users constitute the industrial market.

1.7.4 The Marketing Tasks

Consumption is the sole-end of all production. A basic task of the marketing system is to allow production to be directed towards the demand for the product, or service. The marketing system performs the functions necessary for the physical distribution of the goods. By means of the marketing function, the original producer and final consumer are linked together.

The following are the important functions of marketing which perform the tasks of marketing, buying, selling, transporting, storage and warehousing, standardization and grading, financing, risk taking and marketing research.

1.8 MARKETING PROCESS

A marketing function is an act, operation or service by which the original producer and the final consumer are linked together. Several activities, general or specialized, are involved in transferring goods from the producers to the consumers. In their journey from the producers to consumers, goods generally require some many hands. Marketing is essentially a process by means of which goods and services are exchanged between the producer and consumer. The activities involved in the transfer of goods from the place of origin to the place of destination are known as marketing process. The three major activities of the marketing process are concentration, equalization and dispersion.

1.8.1 Concentration

The process of concentration is concerned with gathering and concentrating the basic raw materials, foodstuffs and manufactured goods at central points, i.e., the market places. Goods are bought from small producers and are collected and concentrated in markets. Concentration involves a number of marketing functions like buying and assembling, transportation, storage, financing, grading, standardization and risk bearing.

1.8.2 Equalisation

The activity that occurs between the process of concentration and dispersion has been called equalization by Clark and Clark "it consists of adjustment of supply to demand on the basis of time, quantity and quality". It is the process by means of which the supply of goods ready for sale is adjusted to the demand for them. Thus equalization means the adjustment of supply at the centers of marketing to the prevailing demand through storage and transportation.

1.8.3 Dispersion

Raw materials are dispersed to manufactures or processors. Products ready for final consumption are dispersed for further dispersion to final consumers. Thus, the process of dispersion consists of arranging the supply of goods in proper quantity for use by the manufactures and splitting up of the goods into smaller lots suitable for consumer.

The three processes of marketing described involve several functions. But there is no unanimity among authorities on the classification of marketing functions. The list of various functions ranges from 5 to 30. Rayan identities 120 different kinds of functional elements that is associated with marketing. The following are some of the important classifications.

1.9 MARKETING FUNCTIONS

The study of marketing functions is necessary to know marketing activities which are involved in moving goods and services through time, space and succession of ownership. This approach underlines the importance of various marketing functions. There has been much confusion regarding the classifications of marketing functions. Marketing function covering the major activities performed in marketing the goods may be classified as follows:

1. Exchange Functions

1. Buying
2. Assembling and
3. Selling.

2. Physical Supply Functions

1. Transportation and
2. Storage and Warehousing

3. Facilitating Functions

1. Standardisation and Grading
2. Financing
3. Market information and
4. Risk-Bearing
5. Promotion

1.9.1 Exchange Functions

a) Buying

Buying is one of the fundamental functions of marketing. The manufacturer who wishes to manufacture certain products for meeting the needs of the consumers has first to buy his requirements of raw materials. Similarly the middleman or trader buys the productions with the aim of reselling them at a profit. Efficient and economical buying by the manufacturer or middleman will naturally enable him to earn profit. Buying includes the determination of the business needs such as the kind of goods, the quantity, the time when they are needed and the sellers from whom purchases are to be made. Buying function consumes much of the time of both the business people and the ultimate consumer.

Buyers may be classified into three types as follows:

1. Manufacturers, and other business houses-industrial, users-who purchase raw materials and other goods for use in their operations.
2. Wholesalers and retailers who buy goods for resale.
3. Ultimate consumers who buy goods for their own use. All buyers, whether manufacturers, wholesalers, retailers or ultimate consumers have to determine their needs.

Good buying means buying the right goods at the right place at the right time in the right quantity and at the right price. Good buying depends' on the perfect knowledge of consumers demand. It is nothing but knowing the customers desires, tastes and preferences by conducting research and through traveling salesman.

b) Assembling

Like buying, assembling is also an important marketing function. Assembling refers to the bringing together of goods of the same type from big and small towns and villages and hamlets to centrally located places. In other words, assembling means seeking out sources of supply, buying wisely and supplying goods when and where they are wanted. The only purpose of collecting and concentrating goods at a centrally located place is to bring them together where they are required either for further production or consumption purposes.

Assembling assumes particular importance in the marketing of agricultural goods and goods produced by small producers scattered over a wide area. Moreover, a trader for the convenience of his customer collects and stores different products of a similar nature. Assembling becomes inevitable for the following types of goods.

a) Goods produced by small producers and who are scattered here and there.

b) Goods which vary widely in quality.

c) Goods which have seasonal fluctuations in supplies.

With regard to agricultural produce, assembling becomes necessary because of the following reasons:

i) Most of the farmers produce agricultural commodities in small quantities and hence individually they could not carry it economically to the market.

ii) Quality of the produce differs from season to season and from place to place.

iii) Supply of agricultural produce also fluctuates because of the failures of monsoons.

iv) Marketing of goods in large-scale results in economies of large-scale handling.

c) Selling

Selling is the process of distributing the tremendous output from factories, farms, forests and mines to the consuming units. The objective of selling is to dispose of goods at satisfactory price. It is the act of transfer of ownership of goods or services to a buyer in exchange for money. It includes persuasion of prospective buyers to accomplish a sale.

The primary objective of marketing is to sell goods for profit. Selling is the source of income for any concern, which leaves a margin of profit after covering the cost of marketing. It is necessary for any concern to find buyers for its products. It is through the efforts off those engaged in selling that the ownership of goods is transferred to the consumer.

In the modem world, with the manifold increase in the volume of production with the help of modern machines and equipments, selling has assumed the pivotal place. If any business is to continue to produce goods, the function of selling must be performed simultaneously. It has become difficult to dispose the goods because of the severe competition in the business world. So salesmanship of a high order is required to perform the selling function. The function of selling stimulates desires and persuades prospective buyers to buy. But to be continuously successful in this activity, goods must be supplied in line with consumer's demand.

The selling function of marketing may be sub-divided as follows:

I. Product Planning and Development

II. Contractual function

III. Demand creation

IV. Negotiation and

1.9.2 Physical Supply Functions

a) Transportation

All goods whether commercial or agricultural are not utilized at their production place itself. They require some kind of transportation for their utilization. The road, rail, canal, river, ocean, and air transport help in the movement of goods from place to place. So transport is the physical means, by which goods are moved from the point of their production to the place where they are required for consumption. It is the corner stone of whole marketing and it is responsible for the creation of place utility. Thus transport is

inevitable in the case of concentration and equalization. Thus, place of abundance of goods and services are linked with places of scarcity. Besides, transport helps in the distribution of wealth, in expansion of the world market, in specialization and division of labour and in better utilization of labour and capital.

b) Storage and Warehousing

Storage is the process of holding of and preserving goods. The original factors of production such as land, capital and manpower cannot be stored. Hence, storage concerns mainly goods. The goods can be for production, for processing or for consumption. Storage involves the making of proper arrangements for retaining the goods in a perfect state till they are needed by the consumers. Thus, it is an exercise of human skill by which commodities are protected from deteriorating and surplus is carried over for future consumption is seasons of scarcity. From the point of view of economics, storage results in the creation of both time and place utilize by preserving goods from the time of production to the time of consumption it ensures the continuous flow of goods to the market. Storage aims at matching production with consumption. Storage is an important stage or milestone in the process of orderly marketing.

The storage of goods becomes necessary for the following reasons

1. Storage increases the value of certain goods such as rice timber, tobacco Liquor, etc
2. Some goods are produced throughout the year but they are demanded in a particular season. For example, woolen blankets and electric heaters are produced throughout the year are demanded more in winter season. Therefore, products like these are to be to store for sometime in anticipation of the demand.
3. Storage of fruits, vegetables, dairy products is necessary because of their timely production and continuous consumption
4. Storage is also essential to the performance of other marketing functions.
5. The modern trend is to produce goods in anticipation of demand. Hence, goods are to be stored until they are demanded.
6. Certain goods require curing or processing before they are ready for sale. They must be stored pending until they are demanded.
7. Goods may be stored to avoid fluctuations in the price of the goods.
8. Storage is essential to keep minimum inventory. By 'inventory. In this connection is meant what a retailer or wholesaler needs to satisfy the demand of his customers at a given price level or what a manufacturer needs to keep his factory going at the desired rate of capacity.

A warehousing is an establishment for the storage or accumulation of goods. The place where the goods are stored is known as a warehouse. Warehouses may be classified as follows:

1. Private warehouses,
2. Public warehouses,
3. Co-operative warehouses,
4. Bonded warehouses,
5. Household warehouses,
6. Refrigerated warehouses (cold storage) and
7. General merchandise warehouses.

i) Private Warehouses

A private warehouse is one which is owned by a large business house or a wholesaler or a manufacturer exclusively for the storage of his own goods. Private warehouses are profitable only when the volume of stock to be stored is high. Otherwise it will increase the prices of products since the management of warehouses involves huge expenditure.

ii) Public Warehouses

A public warehouses is one which operates to store goods for any member of the public in return for a storage fee or charge. Public warehouses are held for public utilities and their methods of operation and rates of charges are regulated by the Government. Some of Public warehouses specialize to store only one commodity. Public warehouses may be owned by a dock authority or any member of the public.

iii) Co-operative Warehouses

The ownership of these warehouses is vested in the hands of a few primary co-operative societies. The agriculturists in the past had only crude forms of receptacles (or bins) which became insufficient in the event of large production.

This necessitated forced sale of agricultural products in villages. To avoid all such difficulties a few primary societies joined hands and organised warehouse on co-operative basis. However this type of warehousing is not popular. The following are the main difficulties of co-operative warehousing; 1) it requires lump sum to build, equip and maintain the warehouses, 2) considerable time necessarily elapses from the beginning of the plan until the house is ready for occupying, and 3) sufficient 'oyalty and co-operation do not exist among the members.

iv) Bonded Warehouses

A bonded warehouse is one which is licensed by the government to accept Goods for storage before payment of custom duty by the importer of such goods. These warehouses are called bonded warehouses because the proprietors have entered into a bond for the safe keeping of goods. The bond is determined by various considerations and requires to

be packed up by sureties. Any irregularity or breach of condition leads to the cancellation of the bond itself and the loss of privileges which it brings. Ordinarily, the importer of goods is not allowed to take delivery from the docks until the duty thereon has been paid. By storing their goods in the bonded warehouses, importers gain some control over their goods even before paying the custom duties. They are allowed to perform certain operations in order to make the goods more suitable for use of consumption or for re-export. The bonded warehouses also permit the owners of goods to take, part delivery of goods by paying only proportionate duty and warehousing charges. These warehouses may be owned by dock authorities or may be privately owned. They have to work under the close supervision and control of the custom authorities further. The goods in bonded warehouses are under the strict vigilance of custom authorities.

v) Household Warehouses

This type of warehouse is temporary in nature and used for the safety of furniture, rugs, furs, printings, etc. which may be spoiled by dust, rust, rats or from other miscellaneous causes. Some of the reasons for fits development sire high, rentals incidental to growth of cities, separation of families through divorce, breaking up of homes after death etc.

vi) Refrigerated Warehouse or Cold Storages

Refrigerated warehouses help to preserve the perishable goods like eggs, fruits, meat, butter, cheese etc. All these products are highly perishable and may easily deteriorate in quality, if exposed to varying temperatures in ordinary warehouses. Hence cold storage is now regarded as a necessity. It helps in relieving temporary gluts. Cold storage has widened markets, developed agricultural commodities, lowered prices to consumers, benefited health and made accessible to the consumer at all seasons a vast variety of delicious fruits and vegetables, meat, eggs, butter and condensed milk.

vii) General Merchandise Warehouse

General merchandise warehouses offer storage facilities for product which does not require special facilities. Manufactured goods, semi-manufactured goods and raw materials are stored in such warehouses. General merchandise warehouses are used by all manufacturers, wholesalers as well as retailers.

1.9.3 Facilitating Functions

a) Standardisation and Grading

Standards are model products, which serve as the basis of comparison with other products. Goods may be said to be of standard quality and description when they are perfectly identical to these model products in various respects. Generally speaking, standards are set with regard to the shape, size, colour, material and performance etc. This standardization of products would therefore; mean the production of such goods as will be uniformly of the same specifications as the standard products. It follows therefore, "that standardization carries the idea of uniformity of quality" Standardization is considered to be a facilitating or ancillary function of marketing because it aids in the efficient performance

of the various marketing functions, particularly, buying and selling. This will be clear when we consider the buying and selling by sample or description. In either case, there is a fundamental assumption that the whole lot will conform to the quality of the product, whose description has been given by the salesman or in the advertisement or which has been shown by way of sample. Obviously this assumption will be fulfilled only when the products are standardized. This standardization movement has made a beginning in the field of manufactured goods. Even otherwise, the products of the modern mass production industries are standardized because they are generally produced with standard equipment, machinery and materials and under standardized working conditions.

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Grading is an important process in the function of standardization. Grading is the process of sorting individual specimens of a given product to the standard grades or classes to which they belong. Grading is the use of a standard or set of standards, for sorting and graded products into lost that are approximately identical in variety, size, quality, etc. According to Clark, "It involves the division of products into classes made up of units possessing similar characteristics of size and quality."

In the case of manufactured goods, generally grading is not necessary because the products are of uniform characteristics. If there are some products that do not conform to the standards set they are rejected. it is, however, different with the raw' materials and other agricultural products. Thus raw materials, coming from the field (say, cotton, sugarcane, etc) forest (say timber, etc.,) and mines (say, coal, iron-ore manganese, etc.) are usually not of uniform quality. The manufacturing plants which make use of them generally demand uniform materials conforming to certain standards of quality. To make his produce saleable the producer has therefore, to grade it according to different standards and characteristics. Generally, these two terms grading and standardisation are used as synonyms; but in fact it is not so. Standardisation is different from grading. Standardisation precedes grading. Standardisation establishes a standard for product and grading is to follow that standard. Standards are generally established on the basis of intrinsic physical properties of the commodities and the quantity and colour etc. Then goods are graded (sorted out) into different lots according to the standard already laid down. Grading depends upon standardisation.

Check Your Progress

I Fill in the Blanks:

1. —— is a place where goods are bought or sold.
2. Modern Marketing is——oriented.
3. Social concept of marketing was given by ______
4. —— is the process starts with market, goes on to focus the customer's needs, calls for coordinated marketing, laying emphasis on selling of satisfaction.
5. Storage creates —— utility.

b) Financing

Finance is a pre-requisite for any business transaction. The financing function of marketing involves the use of capital to meet the financial requirements of the agencies engaged in various marketing activities. In other words, manufacturers, wholesalers, retailers and consumers all require funds in their turn to produce, sell and consume goods. That is why Pyle has rightly said that "money or credit is the lubricant that facilitates the operation of marketing machine."

A firm requires funds either to manufacture its products or to purchase them for resale and to invest in the products of goods held in the stock for sale.

Clark has given a list of expenses that occur at the time of production and at the time of sale. Among many, the important items are (i) expenses connected with production, selling and maintaining goods stock and (ii) expense arising out of seasonal marketing.

c) Market Information

It is always better for any businessman to keep in touch with the market. He should be informed about the supply position of a particular commodity, demand for it, prices prevailing in the market, availability of new commodities and any other information that may be useful for him. The desired success of marketing depends on correct and timely decisions. These decisions are based on market information or market intelligence. The collection of adequate, reliable and timely market information cannot be over emphasized. The accurate marketing information can change the market conditions. Market information

d) Risk Bearing

All business transactions take place with the purpose of getting something in return. During the course of this action there is an element of uncertainly or possibility of loss. This is known as marketing risk. Risk is a universal marketing function and is present in some form of the other in alt marketing transactions. Risk in marketing may be defined as "Uncertainty in regard to cost, loss and damage".

The producer, induced by the return, produces more produce to sell in the market. Till toe expected return is obtained, he bears the risk. The middlemen in turn bear the risk till they dispose of their stocks received from the producers at better prices. In anticipation of rise in prices and non-availability of quality goods in future, the customers purchase good of their requirement for the whole year. The goods may be destroyed by fire, flood, storm, earthquake, cyclone etc., The goods may deteriorate in its quality of decline in its quality or decline in its value because of a fall in the market price or change in fashion. Sometimes on account of acute competition goods would not have been sold at a profit which leads to loss. At times bills receivable may not be collected from the customers.

e) Promotion

Promotion includes advertising, personal selling and sales promotions. Marketing communications are essential for both sellers and buyers. Sales promotion are marketing device to stimulate demand for products. The behaviour of buyers can favourably be influenced only through promotion. Promotional programmes are needed for both consumer goods and industrial goods. Persuasive communication or effective promotion will facilitate the marketers to increase and maintain their market share.

1.10 MARKETING CONCEPT

The marketing concept is different from the sales concept. It replaces and reverses the logic of sales concept. The sales concept starts with the firm's existing products and considers as one of using, selling and promotion to stimulate a profitable volume of sales.

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The marketing concept, on the contrary, starts with the firm's existing and potential customers and their needs. It plans a coordinated set of products and programmes to serve these needs. It ultimately hopes to build its profits on creating meaningful value satisfactions. The marketing concept is a consumer's needs orientation backed by integrated marketing aimed at generating consumer satisfaction as the key to satisfying organization goals. The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors. It focuses on all activities of the organization for satisfying customer needs by integrating these activities with marketing to accomplish the organisation's long range objectives.

In Prof. Philip Kotler's opinion there are three pillars in the marketing concept. They are:

1. Customer's Need Orientation
2. Integrated Marketing and
3. Customer Satisfaction

1.10.1 Customer Orientation

The marketing concept calls for a basic reorientation of the company from looking inward towards its products to looking outward towards the customer's needs. According to Levitt, "Selling focuses on the needs of the seller while marketing focuses on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash while marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it". The call for a customer orientation has been expressed in many different ways as follows:

- Consumer is the king. He gets what he needs.
- Consumer has voice and tops in the organization chart
- Consumer's need and desires are considered in production planning
- Consumer's need and desires are shaped through products
- Firms produce acceptable products and not the product easy to manufacture

1.10.2 Integrated Marketing

The second pillar of the marketing concept is integrated marketing. Many companies agree with Drucker that "the purpose of the company is to create a customer" but fail to take the necessary organizational steps to implement the marketing concept. Integrated marketing means a number of things. First, various departments in the company must recognize that the actions of the sales and marketing people, may have profound effect on the ability to create and retain customers. Some means must be developed to co-ordinate the impacts of all the departments of the firm on the customer. This can be

Check Your Progress II State whether the following statements are true or false:

6. Functions of exchange include buying, selling and assembling.
7. Transportation creates place utility.
8. Promotion function includes advertising and personal selling
9. Wholesaling and Retailing are not physical distribution functions of marketing.
10. The basic objective of marketing function is to link producer and retailer.

accomplished partly by educating other departments to think about the customer and partly by setting up liasion committees to work on departmental interface problems.

Integrated marketing also means that within the marketing function proper there is intelligent adaptation and co-ordination of the four P's (product, price, place and promotion) to build strong exchange relationship with customers.

To achieve this type of integration, many companies have created product managers and market managers. Product managers are responsible for planning and coordinating the various inputs necessary to carry a particular product successfully through the system. Market managers are responsible for coordinating alt the company's or firm's products and services that may be desired in a geographical market or by a target consumer group.

1.10.3 Customer Satisfaction

This is the third pillar of the marketing concept. The telling factor in the company's long-run fortunes will be the amount of customer satisfaction that it manages to generate. But it does not mean that the company's sole aim is to maximise customer satisfaction. If that where the case, it should simply put out the best product and service in the world and price it below cost. Thereby it would be creating substantial customer satisfaction. But in the long run it would also be out of business. Customer satisfaction, tike happiness is best achieved by rendering substantial forms of assistance to others rather than by direct pursuit. The aim of the marketing concept is more to help than to please.

Companies that move towards adopting the market concept benefit themselves and the society. It leads the society's resources to move in the direction of social needs, thereby bringing the interests of business firm and the interests of society into harmonious relationship. Thus, the third pillar of the marketing concept aims to achieve good profits by giving the customer genuine values and satisfaction.

Sales Concept versus Marketing Concept

Concept	Focus	Means	End
Sales	Product	Selling and Promotion	Profits Through Sales Volumes
Marketing	Customer Needs	Integrated Marketing	Profits Through Customer Satisfaction

The marketing concept has been a great step forward in tailoring the actions of business to the interests of consumers. At the same time it fails to distinguish between consumers' interests in the short run and consumer welfare in the long run. Yet it is becoming increasingly clear that a total dedication to meet consumer wants may create adverse social consequences. Large automobiles cause traffic congestion and air pollution, efficient detergents cause deterioration in the quality of our water, etc. It is possible to endanger the long run welfare of consumer's by catering efficiently to their short-run desires. Thus,

socially responsible marketing is a balancing of there considerations. They are viz., consumer wants, company profits, and social welfare. Prof. Philip Kotler puts these thus:

"The societal concept is a customer's need orientation backed by integrated marketing aimed at generating customer satisfaction and long run consumer welfare as the key to satisfying organizational goals"

The addition of long-run consumer welfare asks the marketer to include social and ecological considerations in his product and marketing choices. Failure to do this may eventually increase form of government regulation.

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1.11 KEY TERMS

- **Market**

  It is a place where goods and services are exchanged.

- **Marketing**

  It is sum of all activities involved in the creation of place, time and possession utilities.

- **Marketing Process**

It involves activities which facilitate flow of goods from the producer to consumer.

- **Marketing System**

  It refers to exchanges that take place in a society along with the facilitating institutions.

- **Marketing Concept**

  It is a consumer's needs orientation backed by integrated marketing aimed at generating consumer satisfaction.

1.12 SUMMARY

The traditional marketing developed from time immemorial. Market is a place where goods and services are bought and sold. The approach to the study of marketing has passed through several stages before reaching the present stage. Marketing is a human activity directed at satisfying needs and wants, through an exchange process. Modern marketing covers all business activities in order to ascertain the demand, product planning, distribution and facilitating the entire marketing process. The marketing concept focuses on all the activities of an organization for satisfying customer needs by integrating these activities with marketing to accomplish its objectives. Marketing functions are those which are capable of creating time, place, possession and form utilities.

1.13 ANSWERS TO CHECK YOUR PROGRESS

1. Market
2. Consumer
3. Philip Kotler
4. Marketing Concept
5. Time
6. True
7. True
8. True
9. False
10. False

1.14 QUESTIONS/EXERCISES

Section A

1. Explain the importance of marketing.
2. What are the features of modern concept of marketing?
3. Discuss briefly the four pillars of Marketing Concept.
4. Distinguish between marketing and selling.
5. Explain the three major activities of marketing process.

Section B

1. Discuss the functions of marketing.
2. Discuss the different approaches to the study of marketing.

1.15 FURTHER READINGS

1. Philip Kotler, et al (2009), "Marketing Management", Prentice Hall, New Delhi.

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3. Ramasamy and Namakumari (2009), "Marketing Management – Global Perspective Indian Context", MacMillan Publishers India Ltd., Delhi, 4th Edition.

4. John A.Guelch and Kasturi Rangan (2005), "Marketing Management", Tata McGraw Hill Publishing Company Ltd., New Delhi.

5. Rajagopal (2006), "Marketing Management – Text and Cases", Vikas Publishing House Pvt. Ltd., New Delhi.

UNIT 2 MARKETING MANAGEMENT

NOTES

Structure

2.0 Introduction
2.1 Unit Objectives
2.2 Marketing Management
2.3 Functions of Marketing Management
2.4 Marketing Mix
2.5 Marketing Plans
2.6 Marketing Planning Process
2.7 Marketing Organisation
2.8 Responsibilities of Marketing Manager
2.9 Key Terms
2.10 Summary
2.11 Answers to Check Your Progress
2.12 Questions/Exercises
2.13 Further Readings

2.0 INTRODUCTION

The importance of marketing has been widened through many evolutionary processes and shaped as consumer-oriented stage, in which the existence of a firm is measured of its ability to satisfy the consumers. The study of marketing management is nothing but the critical evaluation of various marketing functions. The marketing management is the functional area of business management which deals with the problems of consumers' satisfaction. Marketing management represents marketing concept in action. The importance of the marketing manager is also broadened. In the present unit the various functions of marketing management will be discussed in detail. The various forms of marketing organization structure, the marketing mix, the marketing planning process and responsibilities of modern marketing manager are discussed in the following paragraphs.

2.1 UNIT OBJECTIVES

- To understand the meaning of marketing management and its functions
- To appreciate the significance of marketing plans various stages of planning process
- To analyse the components of Marketing Mix
- To explain the various marketing organization structure

♦ To describe the responsibilities of Marketing Manager

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2.2 MARKETING MANAGEMENT

Marketing management is the creative management function which promotes trade and employment by assessing consumer needs and initiates research and development to meet them. It co-ordinates the resources of production and distribution of goods and services, determines and directs the nature and feels of the total efforts required to sell profitably by maximum production to the ultimate user. The task before the marketing management is the responsibility of finding a market for products. Thus, the tasks relate to "regulating the level, timing and character of demand in a way that will help the organization to achieve its objectives. Marketing management may be rightly described as demand management". Marketing Management represents marketing concept in action. The process of Marketing Management is the set of managerial function, i.e. planning, organizing and control of programmes to achieve pre-determined objectives. Marketing Management is an important functional area of business management efforts under which goods and services flow from the producers to consumers.

According to Philip Kotler, "Marketing management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target audiences for the purpose of personal and mutual gain. It realises heavily on the adoption and coordination of product, price, promotion and place for achieving effective response".

The above definition brings out the following important features:

(1) The management activities include analysis, planning, implementation and evaluation of performance.

(2) It directs the purposeful activities towards the attainment of marketing goals i.e., to bring about desired exchanges of goods or services.

(3) It is carried on for personal or mutual gain.

(4) It stresses on effective coordination of all the activities of a firm.

According to Still and Cundiff, "Marketing management is concerned with the direction of purposeful activities towards the attainment of marketing goals. It directs purposeful activities, consciously planned, organised, coordinated and controlled. Managerial effort in marketing is goal-directed."

In the words of Pride and Farrel, "Marketing Management is a process of planning, organizing, implementing and controlling marketing activities in order to effectively and efficiently facilitate and expedite exchanges.

2.3 FUNCTIONS OF MARKETING MANAGEMENT

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2.3.1 Planning

Once the management has established its objectives, the next step is to determine the manner in which these goals are to be achieved. This managerial activity is known as planning. Without proper planning, a company's operations have no meaning and no direction. Besides the procedure for achieving the management's goals .also will not be in order.

Planning depends on the length of time and relative breadth of the activities planned. So, it may be for long run or short run and may cover a single area or many areas. In the field of marketing planning plays a wider role for its application in every major programme of the company. The marketing executives are engaged in long run and short run planning regarding their markets, products, distributive channels, promotional programmes etc. The planning process may include laying plans for the introduction of new products sales forecasts.

The two words, "strategy" and "tactics" are derivative from military-terms; but their wide application is to be found in non-military activities also. In marketing, the term "strategy" is an overall plan of action to achieve a pre-determined marketing objective while "tactics" are the detailed methods and techniques employed to implement the strategy.

2.3.2 Organising

Organising is the process of arranging the activities and the personnel of a firm in such a way as to achieve the maximum output with highest degree of efficiency. The marketing manager is expected to design an appropriate organization for achieving the marketing tasks. He must also make sure whether the organisation policies and practices are compatible with marketing plans and that the organisation has the necessary capabilities for achieving the marketing goals. The promotional programmes, campaign of marketing methods, procedures for executing the policies and implementing the marketing plans etc, are carried on under the direction and guidance of the marketing manager. The end structure of the process as mentioned earlier, in a good organisation, is that the people involved produce more effectively as a group than they produce individually.

2.3.3 Staffing

One of the important functions of marketing management is to assemble the human resources. If management is considered as a key to successful business then proper staffing is the key to successful management. Proper selection of persons both in executive and non-executive lines will reduce many management problems. Besides, it reduces the workload of the executive and makes his job easier. For example, if an excellent sales force manager is appointed, he will tackle situations aptly and thereby marketing manager's job is made easier. Good selection of staff will help in producing better results, even if the original planning is mediocre.

2.3.4 Co-ordination

The activities of marketing executive should be coordinated with the activities of other departments. There are countless examples of inter-departmental coordination. Marketing department, can furnish sales estimates to the production department thereby the latter department can adjust its production schedule. Similarly the production department can help marketing by supplying the required quantity and quality of products. It can also provide product information for sales, training and advertising programmes.

Within a department, for instance, marketing department-activities in sales, advertising, marketing research development customer service, sales statistics, new product etc. require careful coordination.

Marketing executives must necessarily extend their coordinated activities with other agencies such as advertising, transportation etc.", which are helping in their marketing programmes. Campaign programmes of advertising agencies mast coincide with the introduction of a new model or product. Transport facilities must be available where and when required.

According to Philip Kotler, the marketing concept implies the coordination of all company activities. In practice, organisational conflicts occur between marketing and other departments on account of (a) each department wishing to stress the importance of its own task, (b) each department defining its goals narrowly and in its own self interest. These conflicts will continue, if efficiency of a department is determined by its own task, ignoring the overall company's contribution. Therefore, the top management should have inter-departmental policies and plans specially designed to increase the overall interest of the company and to eliminate completely the self-interest attitude of individual departments.

2.3.5 Operations

When goals are set, planning is over; proper organisation is established and equipped with the required staff, the next step is to implement the programme. Unless it is carried out effectively the end goals cannot be achieved. This is particularly true in marketing because success depends upon the way the business is operated. For example, management may develop excellent plans but unless the sales force carries out the end of the task success cannot be achieved. This function of operating and directing includes operating a sales force, working with middlemen and directing an advertising campaign.

2.3.6 Controlling

The aim of any control system is to set the stage for decision and action. An effective control system assures a continuous stimulating action towards the company's set goals. The function of control is carried on, under the following four headings (i) establishment of performance standards; (ii) measurement and "feed back" of performance results; (Hi) evaluation of the actual results against the standards fixed: and (iv) the action indicated by evaluation.

2.3.7 Evaluating

The end stage of management structure consists of analysis and evaluating the results of the company to determine whether the, set goals have been reached or not. To start with, an analysis may be done to determine the marketing costs by territories, products or customer groups. This is very. Important on account of the fact that in certain cases the bulk of sales volume and net profits may come from a small percentage of products, consumers or territories Without knowing this, the management may spread out its management efforts evenly over all territories, products or customers even though they do not produce, proportionate returns to the company. Secondly, the performance of individual salesman may be evaluated. Thirdly, the effectiveness of the advertisement programmes by the manufacturers and middlemen will be analysed. Fourthly, the manufacturer will evaluate the performance of the middlemen individually against his quota and customers reactions. Based on these, changes may be introduced wherever necessary and direction given for further course of action.

During the course of operational activities the executives may come across with many marketing problems. To guide them in their decision taking, management should establish marketing policy covering, every please of its programme. A marketing policy is a statement or a course of action which is followed under a given set of circumstances by the executives. It must ensure uniform executive action, uniform treatment for all customers and saving of executive's valuable time. A good policy could be established normally on the basis of a good research work. Then it is likely to be stable. If it is changed frequently, executives may be misguided. However, the established policies should be reviewed periodically and revised when necessary. Therefore, it must also be flexible to suit the various surrounding of a given business circumstance.

2.4 MARKETING MIX

There are a number of tools the marketer uses to make sales. The policies and programmes adopted by the marketer to attain success in the market constitute the marketing mix. The important elements of the marketing mix of manufacturers are, product planning, branding, pricing, channels of distribution, personal selling, advertising, promotions, packing, display, servicing and physical handling. All these elements can be grouped under four mixes. They are (1) product mix including aspects of product line quality, packing and branding. (2) Pricing mix including aspects of basic price and credit terms. (3) Place mix or physical distribution, warehousing, physical handling of goods, transportation facilities, and market location and (4) promotion mix including advertising, publicity, sales promotion and personal selling. These four mixes- product planning, pricing, physical distribution, and promotion, can be referred to as the Four P's in marketing. But according to Borden, the concept of marketing mix include (i) a list of the important elements (which we have already referred) that make up the marketing programmes and (ii) a list of the forces that bear on the marketing operation of a firm. Borden classifies the forces which bear on the

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marketing operation of a firm under four heads: they are behaviour of consumers, the trade, competitors and government. All these forces along with the elements of marketing must be studied and understood by a marketer, if his marketing mix is to be successful. Various elements of the marketing mix are discussed below:

Elements of Marketing Mix

Product Mix	Price Mix	Place Mix	Promotion Mix
Product Line	Basic Price	Transport & Housing	Advertising
Product Service	Price Alteration	inventory control	Personal Selling
Brand	Credit Terms	Storage Facilities	Special Promotion

2.4.1 Product Mix

This mix includes product planning, packaging, branding and services. Product planning comprises policies and procedures relating to what types of products to be produced, their quality, designs and services offered, new product policy, etc. Before producing a new product, marketing manager should see whether consumers will accept the new product. Branding policies and procedures relating to selection of trade marks; brand policy, sale under private label or unbranded packaging, and labels.

2.4.2 Price Mix

Prices and pricing policies are of great importance not only to manufactures and middlemen but also to the consumer. Prices affect not only goods already produced but also future plans for production and future marketing. Therefore, sound pricing policies must be adopted to ensure that the organization secures satisfactory profits. If the prices are too high it will affect the sales volume. If the prices are low, it will affect the profits. So while fixing the priced, the following must be objectives:

1) Achieving target return on investment,
2) Stabilising prices;
3) Maintaining a target share of the market;
4) Meeting or preventing competition; and
5) Maximising profits.

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2.4.3 Place Mix

Under this Mix, the management should select the channels and routes that will be used to bring product from the factory to the market, i.e., to ultimate consumers and industrial users. Distribution is concerned with various activities such as the movement and storage of goods, the legal, promotional and financial activities involved in the transfer of ownership from the producer to consumer.

2.4.4 Promotion Mix

Finally, another important element of the marketing mix is promotion, which includes advertising, sales promotion, personal selling and other activities which will inform and persuade the customers regarding the company's products. Regarding advertising policies relating to the amount to be spent, methods and modes of advertisement must be clearly laid down. Separate policies and procedures should be laid for personal selling if any.

Apart from these marketing elements which we have discussed above, there are certain forces which bear on marketers. A marketing manager, to be successful, must understand not only the elements of the marketing mix but also the forces which bear on him. Borden classifies those forces into the following four categories:

1. Consumer's, buying behaviour: which includes' motivation in purchasing, buying habits, living habits, buying power and environment.

2. The Trader's behaviour: (wholesalers and retailers behaviours) is influenced by their motivations, trade structures, practices and attitude.

3. Competitor's position and behaviour: as influenced by size and strength of competitors and indirect competition supply and demand for products, product choices offered to customers by the industry-competitors' motivations and attitudes, trends in technological and social factors and change in supply and demand.

4. Government regulations: While building a marketing programme to fit the needs of the company, the marketing manager has to take into account the behavioural force along with the elements of the marketing mix.

2.5 MARKETING PLANS

Every business enterprise has to take various marketing decisions. These decisions actually emerge from the complex interaction of a large number of persons carrying out different responsibilities in the marketing organization. As an integral part of overall management, the marketing executives are deeply involved in the process of planning. A Marketing Plan promotes a comprehensive view of the business firm and acts as a process of communication and coordination between marketing department and other department. Marketing Planning defines the role and responsibilities of marketing executives in such a way as to achieve the goals of the firm. It lays emphasis on the allocation of marketing resources in the best and most economical way.

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Marketing Planning involves the preparation of policies, programmes, budgets, etc. in advance for carrying out the various activities and functions of marketing to attain the marketing objectives.

According to American Marketing Association, Marketing Planning is defined as "the work of setting up objectives for marketing activity and of determining and scheduling the steps necessary to achieve such objectives".

Every business enterprise should look ahead and determine where it wants to go and how to get there. Its future should not be left to chance. In order to meet this need, business enterprises use two systems – a strategic planning system and marketing planning system. Strategic Planning is a stream of decisions and actions which lead to effective strategies and which in turn help the firm to achieve its objectives. Marketing Planning is the interface between the business enterprise and its market. Any business enterprise practicing marketing in the proper sense has to identify correctly the needs of the consumer, translate the needs into suitable products and services, deliver those products and services to the total satisfaction of the consumer and through the process generate profits for the business firm. Marketing planning is done by the marketing department. Marketing planning helps to appraise performance, capitalize on strength, minimize weaknesses and threats and finally open up new opportunities.

2.6 MARKETING PLANNING PROCESS

The steps involved in the marketing planning process are discussed below:

2.6.1 Scanning the Marketing Environment

First, the firm scans its marketing environment. The purpose is to find out a) the favourable and unfavourable factors prevailing in the environment and b) the specific business opportunities available to the business unit and their relative attractiveness. Study of marketing environment analysis helps to locate marketing opportunities and discover unsatisfied consumer demand. It also undertakes customer scanning, reactions of the customer to its products and tries to locate the causes of the customers patronage of a particular brand and who remain closest to the customer, and why.

2.6.2 Internal Scanning

Internal scanning is the process of assessing the firm's strength and weaknesses and identifying its core competencies and competitive advantages. While environmental scanning may help to identify the various possible opportunities in areas of interest to the firm, the firm obviously cannot tap all the identified opportunities. It has to be selective and decide on the opportunities it has to tap and the business it has to pursue. It also has to build defences against impending problems.

2.6.3 Setting Marketing Objectives

The very purpose of setting objectives is to provide clear cut direction to the business regarding its future course of action. Objectives are set in all the key areas of

marketing such as sales volume, market share, market standing, innovation, productivity, profit, etc. The business unit has to develop its marketing objectives after weighing the opportunities available in the environment, the threats, the forces of competition, the resources and capabilities of the unit and its marketing organization.

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2.6.4 Formulating Marketing Strategy

Marketing strategy formulation is the core of marketing planning. Marketing Strategy is a set of objectives, policies and rules that guide over time marketing efforts of the concern. Stated in simple terms, marketing strategy is the complete and unbeatable plan designed specifically for attaining the marketing objectives of the firm. The marketing objectives indicate what the firm wants to achieve. The marketing strategy provides the design for achieving them.

2.6.5 Developing Functional Plans

Once the marketing strategy is formulated, the next step is elaborating the marketing strategy into detailed plans and programmes. The detailed fimctions plans will emanate from and be in turn with the marketing objectives and marketing strategy of the firm. Even the best marketing strategy may turn out to be a failure in the market place, if the detailed functional plans are drawn in a haphazard manner. A plan may have to be developed for each marketing function.

2.7 MARKETING ORGANISATION

Sheldon sys, "An organization is the process of combining the work which individuals or groups have to perform with the facilities necessary for its executives, that the duties so performed provide the best channels for the efficient, systematic, positive and co-ordinated application of the available effort". All organizations have some aims and objects before them. An organization is facilitated by regulations, policies and procedures and defining the duties and responsibilities of its members. Thus, all organizations are made of objectives, people and procedures. They aim at dividing the work according to importance and regrouping them into one. The predetermined objectives are accomplished by the groups consisting of individuals. Marketing organization is a separate organization fro the purpose of marketing alone. It is defined as "A group of people brought together to participate in a common effort to accomplish certain goals". Organisation is the backbone of the management with proper care at all levels; it is possible for the management to attain the aimed goal.

Check Your Progress

I Fill in the Blanks:

1. ———— had introduced the concept of marketing mix.
2. ———— is about bringing your product/service to the attention of your target market, reminding them or persuading customers to purchase that product/service.
3. ———— defines the role and responsibilities of marketing executives in such a way as to achieve the goals of the firm.
4. ———— is the one of the 4 P's of Marketing Mix which is concerned with selection of distribution channel.
5. The four basic elements of marketing mix given by M.C.Caethy are ————, ————, ———— and

2.7.1 Principles of Marketing Organistion

An oranisation structure and its design have to be planned by the management, as an architect designs a building. The architect has to look at the size and type of land, environment materials and many other factors in designing the building for an aimed or specific object. In the same way, when the management of a firm designs the organization structure, it is a job more than that of an architect. They have to look into many matters.

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Another example will be a game in which an unlimited number of players assemble without specific role assigned to each. So, everyone has got his own rules and this will bring no result to the game. Therefore, when designing an organization structure, the following principles may be followed to achieve the set aim.

a. Clear-cut objectives: An organization is created fulfill certain goals or aims. In order to achieve the aim and objectives it has to identify the activities of goals in clear, precise and complete terms free from ambiguity.

b. Specialisation and Definiteness: The principle of specialization is the division of work aiming at maximum results. The activities of a firm are divided into many units, sub-units and suitable groupings in relation to departmental activities, sectional activities, sectional activities etc. Fixed responsibilities and in speeding up the work. Every employee must definitely know his position in the firm and purpose thereof, so that he realizes his responsibility and works accordingly.

c. Delegation of Authority: A clerk gets his authority from his section-head, to whom the worker is responsible for the proper performance of the job assigned. Therefore authority always flows downward, while responsibility always moves upward. A clear definition of authority and responsibility is essential. In the lack of clear definition, the management cannot have a smooth function of work. A busy management allocates task among the subordinates. A successful office manager never performs the task himself, but get the work done by others.

d.Span of Control: No executive must have too many subordinates reporting to him. If an office manager has many subordinates under him, then control becomes defective.

e. Co-ordination: Co-ordination is essential to bring unity of action in the organization. Work of all departments should be balanced in order to avoid conflict or overlapping of functions, with the object of ensuring smooth and efficient working functions.

f. Flexibility: Organisation must be flexible, so that it can be adjusted to changing conditions. It must permit expansion, replacement, merger etc. It should not be rigid.

g.Responsibility: Without authority there cannot be any responsibility. Assignment of responsibility should be coupled with authority sufficient to carry them out. There must be parity between authority and reasonability. Each worker must have sufficient authority to discharge the responsibility assigned to him.

h. Efficiency: Available human resources should be utilised to the best and fullest capacity in order to achieve the highest efficiency through operations.

i.Unit of Command: Subordinates receive instructions from one authority. Too many high officials create confusion in the mind of the worker.

j. Personal Ability: As people constitute an organization, proper selection, placement and training are necessary. Organization structure must ensure optimum use of human resources.

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2.7.2 Types of Marketing Organisation Structure

Organisation is the vehicle for accomplishing the goals and objectives of the business. Organisation is essential, when human beings have to collaborate and work for a common purpose. In fact, an organization is often defined as "a group of persons working together towards the attainment of certain common objectives. When the enterprise expands, some pattern of organization should be adopted. Generally, the following are the types of marketing organization.

a. Military Organisation

This is the simplest and oldest form of organization. It is also referred as line organization, scalar or hierarchical organization. Under this type of organization, a superior delegates authority to a subordinate, who in turn delegates authority to another subordinate and so on. Authority descends from the top to the bottom level, through downward delegation of authority. Subordinates become responsible to their immediate superiors. The topmost management has full control over the entire field.

This form is suitable:

1. If the business is comparatively small.
2. If the labour management problems are easy to solve.
3. If the process are easily directed.
4. If the work is of a routine nature.

Merits

1. It is simple to work.
2. It is economical and effective.
3. It is easy to fix responsibility.
4. It facilitates quick decisions and prompt actions.
5. Quick communication is easy.
6. Discipline can easily be maintained.

Demerits

1. The organization is rigid and inflexible.
2. It works on a dictatorial basis.
3. Department heads act on their own whims and desire, as it is difficult to secure co-ordination of the activities of workers and departments.
4. In big business it does not operate satisfactorily.

b. Functional Type Organisation

The limitations of line organization have been removed under this system. All types of work of the organization are grouped and managed by the top executive. There are separate functional departments for major functions of the enterprise; example personnel department, purchase department etc. Each department does its function for the whole enterprise. The functional organization works through the line organization. Functional organization is based on expert knowledge and makes the greatest use of division of labour resulting in high efficiency and specialization.

Check Your Progress

II State whether the following statements are true or false:

6. Line and Staff Organisation is based on specialization.
7. Matrix Organisation is also known as grid or project organization.
8. Internal Scanning is the process of assessing the firm's strength and weaknesses and identifying its core competencies and competitive advantages.
9. Branding and Packaging are the components of Promotion Mix.
10. Product planning is the starting point in the process of exchange.

Merits:

1. Greatest of divisions of labour is possible.
2. The system is based on expert knowledge.
3. Functional efficiency of the worker can be maintained.
4. Mass production is made by standardization and specialisation
5. Separation of mental and manual functions is possible.
6. Methods and operations can be standardised.

Demerits

1. Too many experts and bosses (high officials) create) confusion in the mind of the worker.
2. It is difficult to fix responsibility on workers.
3. Discipline and morale of the workers are seriously affected, because of contradictory orders from different experts.
4. There is heavy overhead expense.

c. Line and Staff System

In this type, the organization is based on the line organization and the functional experts advise the line officers as to the functions of the enterprise. The line officers are the executives and the staff officers are their advisers. Though the staff officers do not have the power to command the line officers. Their advice is generally adhered to. The combination of organization with this expert staff forms the type of organization-line and staff. The 'line' keeps the discipline and the staff provides expert information. The line gets out the production and the staff carries on research, planning, fixing standard etc. this type of organization is suitable for large concerns. The line officers give orders, decisions etc, to subordinates in consultation or guidance with the staff officers. The underlying idea of this method is that specialized work is to be left to experts who will give advice on specialized groups-investigation, research etc. The staff officers who have no executive positions in the concern, but are only the thinkers, while the line officers are the doers.

Merits

1. The type is based on specialisation.
2. It brings expert knowledge of the whole concern.
3. Increased efficiency of operations may be possible.
4. Mass production is possible.

Demerits

1. There arises confusion unless the duties and responsibilities are clearly indicated by charts and office manuals.
2. Advice and expert information are given to the workers through the line officers, It is possible that the workers may misunderstand or misinterpret.

d.Committee Organization

Committee organization is widely used for the purpose of discharging advisory functions of the management. Committees are formed in different levels of organisation. A committee is a group of people who meet by plan to discuss to make a decision on a particular subject. Because of its advantages, committee organization is preferred. The management committee usually consists of General Manager and departmental heads to deal with current problems. A co-ordinated plan is agreed to in a meeting. Thus group judgement is possible to attain an aimed result.

For a successful committee organization, the following hints may be noted.

1. Number of individuals is to be kept at a minimum, so as to function effectively. If there are many members, it will cause lengthy discussions an delayed decisions
2. The chairman of the committee must have full control over the members, while they are in meeting.
3. There must be a proper agenda, arranged in order of importance.
4. All the members are to be informed before the meeting about the points to be discussed, so that they may prepare for the meeting.
5. The meeting must be started on time and must end on time.

Merits

1. It stimulates co-operative action.
2. It can promote better understanding
3. A problem is discussed in detail and decision taken.
4. It facilitates co-ordination of activities of various departments.
5. Group discussion an decision will bring better results.
6. It gives demographic management.

Demerits

1. Committees are expensive.
2. Committee weakens individual responsibility
3. Committee may sometimes become time-consuming rather than time-saving.
4. Responsibility cannot be fixed on any person.
5. It lacks secrecy.

e. Geographical Organization

The Structure is based on territorial or regional basis. When business activities are expanded, the various parts of the market area are divided into territories. The whole world into continents, continent into regions, region into zones, zone into districts etc. This type of organization gives importance to the consumer's needs an desire, especially in pharmaceutical companies.

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In this way, the market is fragmented into different sales territories like national market into regions, region into districts district into areas as shown in the chart next.

Salesman are controlled by the respective district sales managers (DSM), DSM are controlled by their regional sales manager (RSM), RSM are controlled by the marketing executive.

This type of organization, enjoys the knowledge of like and dislikes of people in the particular areas. A firm can modify or alter the products, on the basis of the needs of the buyers who are represented by sales manager. The competitors can be counteracted soon.

f. Product Organization

Certain companies produce different varieties of products and it is advantageous to boost the sales on the basis of product or product groups. A separate product manager is appointed for each product. He attends to the production and marketing of his products. When the market is competitive, the product type organisaiton with the product manager can concentrate it s attention on the performance of a particular product or brand. Sales promotion, advertising, marketing research etc., remain as the centralized activity for the product group.

g. Market Organization (Consumer)

This type of organisation is based on the different types of customers. The enterprises have adopted customer-oriented marketing and thus arise two sets or organizations through which the needs of customers or market are met; i.e., sub-division of markets on the basis of government and non-government customers, industrial individual customers, rich and poor customers and on the basis of sex, income, taste, age etc. A firm may have different groups of customers. Who have different needs and problems. Thus, each section can look into the needs of each group of consumers and facilitates their buying-wholesale sections, retail section etc.

h. Matrix Organization

Matrix organization is also known as grid or project organization. Matrix organization is created by merging the two complementary organizations, the project and functional. A team may be set up within the existing organisation, to conduct a study of a particular product or design or to complete a specific assignment in time. A project manager has a project team consisting of people from several functional section. For instance, a project team is formed to market the television, and for this people will be drawn from different functional departments, say, production, research, marketing engineering etc. These specialists are drawn from respective departments, borrowed to perform their part in the project work. When the project work is complete, they go back to their respective departments. This type of organization is needed when a special type or urgent assignment of jobs or complicated job or a new product etc. is introduced. Generally, such organization may be temporary.

Merits

1. Specialised product knowledge is acquired.
2. It is economical to draw experts from various sections.
3. Expansion, improvements, diversification etc., are the result.

We may adopt any of the organization structure from organsing its marketing operation, it should be goal-oriented and flexible. It must have scope for possible future growth.Market conditions change very frequently. Marketing structure should be capable of accommodating all the changes and marketing people should be dynamic to take up various sales job assignments and marketing challenges. The adopted marketing organization structures should provide for the formulation of marketing policies and programmes form the bottom to the top and every marketing person should have opportunity fro participation in i'.

2.8 RESPONSIBILITIES OF MARKETING MANAGER

In order to achieve the objective of business the marketing manager has to assume many responsibilities as follows:

2.8.1 Organisation: Clear allocation of responsibilities and better utilization of personal skills, funds, time will pave the way for business success. Marketing manager should review the effectiveness of marketing organisation and make adjustment for improving it.

2.8.2 Product Planning: Product planning is the starting point in the process of exchange. Satisfactory product is a prerequisite for successful marketing. It is, more so in a firm which runs its business under marketing concept. The marketing manager of this firm should supply goods and services based on the needs of the customers. So product planning is a serious responsibility of the marketing manager.

2.8.3 Advertising: The place of production is separated from the places of consumption and there are other barriers in communication. Hence, advertising becomes a critical aspect of the job of the marketing manager. Advertising, thus, involves the company's public relations and direct contact with customers. It should properly fit into the overall marketing strategy and marketing programmes,

2.8.4 Marketing Research: Marketing research relates to the in-depth study of many complete areas in the field of marketing. It may relate to the field of consumer preference, marketing, cost, strategy of marketing new product, and competition etc. The marketing effort based on marketing research is bound to bring better results to the business house. So shaping and implementing the marketing research programmes fall under the responsibility of marketing management.

2.8.5 Channels of Distribution: Channels of distribution have a important bearing in the price structure of product. There fore, the marketing management should determine the

most desirable channels of distribution keeping in view the company's competitive position and profitability.

2.8.6 Marketing costs: The marketing manager should work closely with the financial management and collect the related data. He has the responsibility of determining the marketing cost by product wise, customer group wise, territory wise, as they are affecting the profitability of the business house as a whole.

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2.8.7 Pricing: Pricing must be based on careful consideration of cost and all other facts related thereto. It includes the setting of costs and all other facts related thereto. It includes the setting of sates policy, discounts, competing price levels, sales volume etc. The marketing manager should take into account all these factors.

2.8.8 Packaging: 'Packaging' is an innovative marketing function. It not only attracts the eye of the customers: but also protects the contents from many risks. At the end of the channel of distribution it accomplishes the selling job.

2.8.9 Service: Marketing manager should equip the management to serve the customers in their presale enquiries and also offer effective after sales, services to all customers. This includes procedures for dealing with enquiries, complaints, offers, etc. and certain products tike that of car, scooters, radio, television involve technical services to customers. It is better that marketing manager takes these as obligatory service to customers at large.

The following are the most important responsibilities of marketing manager:

1. To find out marketing opportunities
2. To improve marketing plans procedures, etc.
3. To develop new innovations – product, market discovery, etc.
4. To develop the sales force
5. To have constant touch with the market – business research
6. To avail of resources to be utilized effectively
7. To interpret the market situations
8. To adopt the most profitable and desirable channels of distribution
9. To supervise and control the various departments under him
10. To develop the existing market
11. To review marketing programmes for improvement, if needed
12. To control the marketing costs
13. To exercise effective account to advertising
14. To forecast effectively and profitably
15. To adopt sound price policy for competing market, in consultation with other top members
16. To keep sufficient inventory to meet demand
17. To maintain good relation with customers, consumers, etc.

18. To create good inter-relationship within the firm
19. To facilitate growth and diversification of products
20. To evaluate the effectiveness of management performance

2.9 KEY TERMS

♦ **Marketing Management**

It is the process of planning, organizing, implementing and controlling marketing activities.

♦ **Marketing Planning**

It refers to preparation of policies, programmes, budgets, etc. in advance for carrying out the various activities and functions of marketing to attain the marketing objectives.

♦ **Marketing Mix**

It is the combination of the product, the distribution system, the price structure and the promotional activities.

♦ **Marketing Organisation**

It is the group of persons working together towards the attainment of certain common objectives.

2.10 SUMMARY

Marketing Management is concerned with determination of consumer wants and needs and supply of necessary goods and services to meet those demands. It is a process of planning, organizing, implementing and controlling marketing activities in order to effectively and efficiently facilitate and expedite exchanges. Marketing organization is the backbone of the management with proper care at all levels and makes it possible for the management to attain the aimed goal. The various forms of marketing organization structure are Military, Line and Staff, Functional, Committee and Matrix. Marketing Planning involves the preparation of policies, programmes, budgets, etc. in advance for carrying out the various activities and functions of marketing to attain the marketing goals.

2.11 ANSWERS TO CHECK YOUR PROGRESS

1. N.H.Borden
2. Promotion
3. Marketing Planning.
4. Place
5. Product, Price, Promotion and Place

6. True

7. True

8. True

9. False

10. True

2.12 QUESTIONS/EXERCISES

Section A

1. Define Marketing Management and explain its importance.
2. Explain the importance of Marketing Planning.
3. What are the responsibilities of Marketing Manager?
4. What is Marketing Mix? Discuss briefly its components.
5. What are the benefits of Marketing Planning?

Section B

1. Explain the functions of Marketing Management.
2. Describe the various types of Marketing Organisation Structure.
3. Discuss the various steps involved in the Marketing Planning Process.

2.13 FURTHER READINGS

1. R.S.N.Pillai and Bagavathi, (2007), "**Modern Marketing – Principles and Practices**", S.Chand & Co. Ltd., New Delhi.
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3. William J.Stanton et al (1994), "**Fundamentals of Marketing**", McGraw Hill International Editions, New York.

NOTES

UNIT 3 MARKETING ENVIRONMENT

Structure

3.0 Introduction
3.1 Unit Objectives
3.2 Marketing Environment
3.3 Internal Environment
3.4 External Environment
3.5 Micro Environment
3.6 Macro Environment
3.7 Trends in Marketing Environment
3.8 Environmental Scanning
3.9 Key Terms
3.10 Summary
3.11 Answers to Check Your Progress
3.12 Questions/Exercises
3.13 Further Readings

3.0 INTRODUCTION

An organization is a creature of its environment. Its very survival and all of its perspectives, resources, problems, and opportunities are generated and conditioned by the environment. Thus, it is important for an organization to monitor the relevant changes taking place in its environment and formulate strategies to adapt to these changes. In other words, for an organization to survive and prosper, the strategist must master the challenges of the profoundly changing political, economic, technological, social, and regulatory environment. To achieve this broad perspective, the strategist needs to develop and implement a systematic approach to environmental scanning. As the rate and magnitude of change increase, this scanning activity must be intensified and directed by explicit definitions of purpose, scope, and focus. The efforts of businesses to cope with these problems are contributing to the development of systems for exploring alternatives with greater sensitivity to long-run implications. Without taking into account relevant environmental influences, a company cannot expect to develop its strategy. It was the environmental influences emerging out of the energy crisis that were responsible for the popularity of smaller, more fuel-efficient automobiles and that brought about the demise of less efficient rotary engines.

3.1 UNIT OBJECTIVES

- To understand the marketing environment

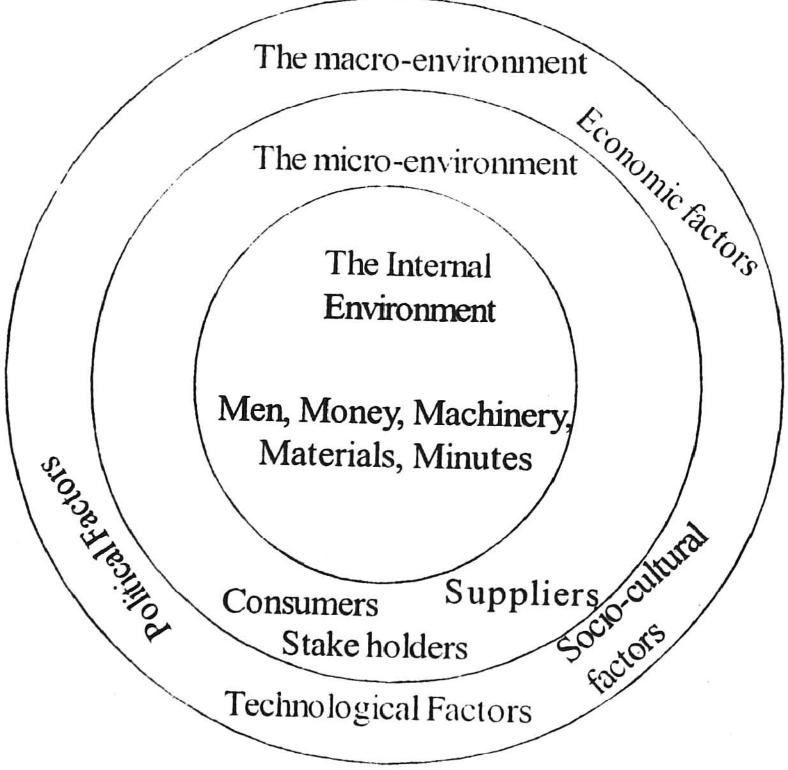
- To identify and describe the factors influencing the internal marketing environment
- To identify and describe the factors influencing the external marketing environment
- To appreciate trends in marketing environment
- To analyse the environmental scanning

3.2 MARKETING ENVIRONMENT

Man's life is shaped by heredity and environment. Similarly, the structure and characteristics of a business enterprise are determined by two factors, namely endogenous and exogenous, that is, internal and external, which constitute its environment. When the business environment is influenced by market forces like demand, supply or competition, it is referred to as market environment. The Marketing environment constitutes all the external forces and issues that influence the marketing decisions and practices of a business enterprise. The entrepreneur has to operate within the larger framework of the environment that shapes opportunities and poses threats to the enterprise. The marketing environment is a set of complex, rapidly changing and significant interacting institutions and forces that affect the entrepreneur's ability to serve his customers. Successful business enterprises scan their marketing environment so that they can respond profitably to unmet needs and trends in the targeted markets.

According to Philip Kotler, external factors and forces that affect a firm's ability to develop and maintain successful transactions and relationships with the target customers. Marketing environment includes all forces that affect marketing policies, decisions and operations of any organization. Such forces may be both external and internal.

Figure 3.1 Marketing Environment



The marketing environmental variables include all those factors which are external to a firm and which affect the marketing process. The marketing environment includes non-controllable variables that affect the company's ability to serve its markets. The enterprise's marketing environment is made up of:

Internal environment – Men, Money, Machinery, Materials, Minutes

External environment – Micro (Consumers, Suppliers and Stakeholders)

- Macro (Economic, Political, Technological, Socio- Cultural)

3.2.1 Controllable Factors/Forces (Internal)

The controllable factors are well within the control of the company and easy to adjust them to suit the changes. These consist of marketing policies and marketing strategies. Top Management is responsible for framing marketing policies while the middle level management develops the marketing strategies. The controllable marketing environment is basically the marketing mix. The selection of target market, marketing objectives and marketing control is the other controllable factors which also help in framing marketing strategies.

3.2.2 Uncontrollable Factors/Forces (External)

Controllable variables will have to be filtered through various uncontrollable environmental factors before they reach to the consumers. Various elements under controllable variables affect an organization and its marketing strategies. The uncontrollable environment consists of two levels namely micro environment and macro environment.

3.3 INTERNAL ENVIRONMENT

All factors that internal to the enterprise are known as the "Internal Environment". The internal environment consists of endogenous factor which relate to internal matters of an enterprise, their composition, structure, size, policy relating to investment, product produced, etc. They are audited by applying the 'Five Ms', which are Men, Money, Machinery, Materials and Markets. The internal environment is as important for managing change as the external. The important factors which influence the internal marketing environment are the employees (or internal customers), office technology, wages and finance, etc.

3.4 EXTERNAL ENVIRONMENT

The external environment consists of exogenous factors which relate to external matters. These external matters are also called environment factors and they influence the growth and structure of the enterprise in a greater degree, just like human beings are greatly influenced by the environment in which they live. It comprises of the totality of

external factors over which the enterprise has no control. Thus, the external forces are not controlled by an organization, but they may be influenced or affected by that organization. It is necessary for organizations to understand the environmental conditions because they interact with strategy decisions. The external environment has a major impact on the determination of marketing decisions. The external marketing environment of an enterprise is further classified into:

- Micro Environment
- Macro Environment

The external environmental sources provide raw data for marketer to develop into actionable, marketing information which can be used for taking effective marketing decisions. Further, environmental forces create challenges and opportunities for the organization. Marketers must react and adapt to changes in their external environment. Globalisation is an example of an opportunity for an organization. Improving technologies, such as transportation and communication, have enabled business enterprises to expand into global or worldwide markets. Marketers should learn to deal effectively with multiple cultures and political systems in the midst of rapidly changing markets and technology. They should be able to anticipate this changing environment and develop the competencies at all levels in their organisations to embrace this dynamic future.

Analysis of the external environment consists of identification of opportunities and threats and tracing it to a particular source. The external environment can be audited in detail using the following approaches:

1. SWOT analysis
2. Five Forces analysis
3. PEST analysis

3.4.1 SWOT Analysis

SWOT analysis is a tool for auditing an enterprise and its environment. It is the first stage of planning and helps marketers to focus on key issues. SWOT stands for strengths, weaknesses, opportunities and threats. Strengths and weaknesses are internal factors. Opportunities and threats are external factors. For example:

a) **Strength**

- Its specialist marketing expertise
- A new, innovative product or service
- Quality processes and procedures
- Any other aspect of the enterprise that adds value to its product or service

Figure 3.2 SWOT Analysis

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS

b) **Weakness**

- Lack of marketing expertise

- Undifferentiated products or service (that is, in relation to competitor's products or services)
- Location of business enterprise
- Poor quality goods or services
- Damaged reputation

c) **Opportunity**

- A developing market such as the Internet
- Mergers, joint ventures or strategic alliances
- Moving into new market segments that offer improved profits
- A new international market
- A market vacated by an ineffective competitor

d) **Threat**

- A new competitor in the home market
- Price wars with competitors
- A competitor has a new, innovative product or service
- Competitors have superior access to channels of distribution
- Taxation is introduced on its product or service

3.4.2 Five Forces Analysis

Five forces analysis helps the marketer to contrast a competitive environment. It looks at five key areas namely the threat of entry, the power of buyers, the power of suppliers, the threat of substitutes, and competitive rivalry.

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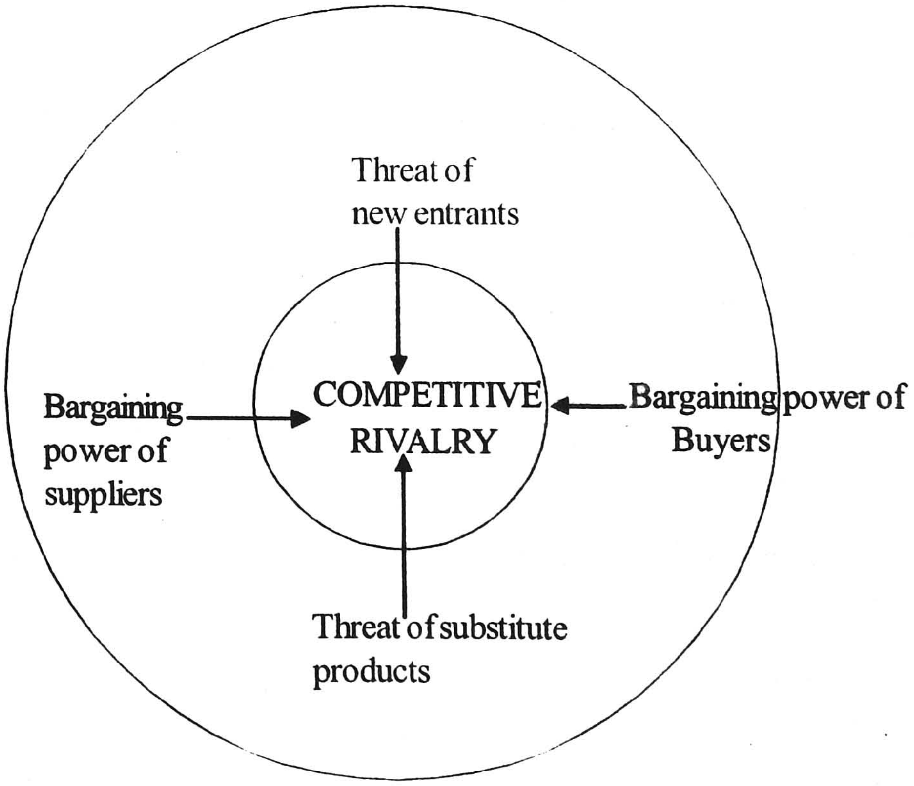
Figure 3.3 Five Forces Analysis



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a) The threat of entry

- Economies of scale (e.g. the benefits associated with bulk buying)
- The high or low cost of entry (e.g. how much will it cost for the latest technology)
- Ease or access to distribution channels (e.g. Do the competitors have the distribution channels sewn up)
- Cost advantages not related to the size of the enterprise (e.g. personal contacts or knowledge that urban enterprises do not own or learning curve effects)
- Will competitors retaliate?
- Government action (e.g. Will new laws be introduced that will weaken our competitive position?)
- How important is differentiation? (e.g. differentiate the brand from the competitor's brand)

b) The power of buyers

- This is high where there are a few, large players in a market (e.g. the large grocery chains)
- If there are a large number of undifferentiated small suppliers (e.g. small farming businesses supplying the large grocery chains)
- The cost of switching between suppliers is low (e.g. from one fleet supplier of trucks to another)

c) The power of suppliers

- Where the switching costs are high (e.g. Switching from one garment supplier from another)
- Power is high where the brand is powerful (e.g. Godrej, Tata)
- There is a possibility of the supplier integrating forward (e.g. Brewers buying bars)
- Customers are fragmented (not in clusters) so that they have little bargaining power (e.g. Petrol bunks in remote places)

d) The threat of substitutes

- Where there is product-for-product substitute (e.g. email for fax)
- Where there is substitution of need (e.g. better toothpaste reduces the need for dentists)
- Where there is generic substitution (e.g. ball point pens competing with fountain pens)

e) Competitive Rivalry

- This most likely to be high where entry is likely; there is the threat of substitute products and suppliers and buyers in the market attempt to control.

3.4.3 PEST analysis

It deals with analysis of political, economic, socio-cultural and technological factors which influence the marketing activities of a rural enterprise.

a) Political Factors

Political factors can have a direct impact on the way business operates. Decisions made by government affect our day to day life and can come in the form of policy or legislation. The introduction of a statutory minimum wage by the government affects all businesses, as do consumer, health, safety laws and so on. The Political force has a huge influence upon the regulation of a business enterprise and the spending power of consumers and other businesses.

The rural entrepreneurs have to consider issues such as:

- How stable is the political environment?
- Will government policy influence laws that regulate or tax their businesses?
- What is the government's policy on the economy?
- Does the government have a view on culture and religion?
- Is the government involved in trading agreements such as WTO, SAARC?

b) Economic Factors

All businesses are affected by economic factors nationally and globally. Whether an economy is in a boom, recession or recovery will also affect consumer confidence and behavior. Marketers need to consider the state of a trading economy in the short and long-terms. The rural entrepreneurs have to consider the following:

- Interest rates policy
- The level of inflation, employment level, per capita income
- Long-term prospects for the economy like GDP rate.

c) Socio-cultural Factors

Within society forces such as family, friends, and media affect our attitude, interest and opinions. These forces shape who we are as people and the way we behave and what we ultimately purchase. For example, in India, the attitudes of people toward their diet and health are changing. Similarly, the children are more likely to experience health problems in their future because of the lifestyle they are living now (that is, fast food culture). The social and cultural influences on businesses vary from country to country. It is very important that such factors are considered. They include the following:

- What is the dominant religion?
- What are attitudes to foreign products and services?
- Does language impact upon the diffusion of products onto markets?
- How much time do consumers have for leisure?
- What are the roles of men and women with society?
- How long are the population living? Is the older generation wealthy?

- Does the population have a strong/weak opinion on green issues?

d) Technological Factors

Changes in technology are changing the way business operates. The Internet is having a profound impact on the marketing mix strategy of an enterprise. Consumers can now shop 24 hours a day comfortably from their homes. Technology is vital for competitive advantage and is a major driver of globalization. Those businesses, which are slow to react, will fall at the first few hurdles. The rural entrepreneurs have to consider the following:

- Does technology allow for products and services to be made more cheaply and to a better standard of living?
- Do the technologies offer consumers and business enterprises more innovative products and services such as Internet banking new generation mobile telephones, etc?
- How is distribution changed by new technologies? (e.g. trading through internet, e booking of air and train tickets)

Does technology offers business enterprises a new way to communicate with consumers? (e.g. Customer Relationship Management)

3.5 MICRO ENVIRONMENT

The external micro environment consists of forces that are part of an organisation's marketing process but are external to the organization. These micro environmental forces include the organisation's market, its producer-suppliers, and its marketing intermediaries. In other words, it covers consumers and customers (external), agents and distributors, suppliers who deal directly or indirectly, competitors, and other local stakeholders. While these are external, the enterprise is capable of exerting more influence over these than forces in the macro environment. This environment influences the business enterprise directly.

3.5.1 The Market

Every enterprise has to monitor their customer markets closely in order to adjust to changing tastes and preferences. A market is people or organizations with wants to satisfy, money to spend, and the willingness to spend it. Each target market has distinct needs, which need to be monitored. It is imperative for the business enterprises to know their customers, how to reach them and when customers' needs change in order to adjust its marketing efforts accordingly. The market is the focal point for all marketing decisions in a business organization.

3.5.2 Suppliers

Suppliers are organizations and individuals that provide the resources needed to produce goods and services. They are critical to an organisation's marketing success and an important link in its value delivery system. Marketers must watch supply availability and monitor price trends of key inputs. If there is a breakdown in the link between the organization and its suppliers, the result will be delays and shortages that can negatively impact the organisation's marketing plans. On the other hand, positive and cooperative relationships

between the organization and its suppliers can lead to enhanced service and customer satisfaction.

3.5.3 Marketing Intermediaries

Marketing intermediaries are independent organizations that aid in the free flow of goods and services from the marketing organization to its markets. Like suppliers, they are part of the system playing a significant role in delivering value to customers. The intermediaries between an organization and its markets constitute a channel of distribution. These include middlemen namely wholesalers and retailers who buy and resell merchandise. Physical distribution firms help the organization to stock and move products from their point of production to the point of consumption. Warehouses store and protect the goods before they move to the next destination. Marketing service agencies help the organization target and promote its products and include marketing research firms, advertising agencies, and media firms. Financial intermediaries help finance transactions and insure against risks and include banks, credit unions and insurance companies.

3.6 MACRO ENVIRONMENT

The external macro environment consists of all the outside institutions and forces that have an actual or potential interest or impact on the organisation's ability to achieve its objectives: competitive, economic, technical, political, legal, demographic, cultural and eco system. Thus, the macro environment includes all the factors influencing the business enterprise which are beyond its control. Though non controllable these forces require a response in order to keep positive actions with the targeted markets. This environment is continuously changing and the business enterprise needs to be flexible to adapt. There may be aggressive competition and rivalry in a market. In the era of globalization, there is always the threat of substitute products and new entrants. As the macro environment is wider and is ever changing, the marketer needs to compensate for changes in culture, politics, economics and technology. Thus, the macro environment consists of political (and legal) forces, economic forces, socio-cultural forces and technological forces. They are also known as PEST factors.

3.6.1 Competitive Environment

Adopting the marketing concept means that an organization should provide greater customer value than that of its competitors. Being good is not good enough if a competitor is better. It is impossible for an organization to develop strong competitive positioning strategies without a good understanding of its competitors and the strengths and weaknesses of the competitors. The three levels of competition exist are:

- Direct competition – from firms competing for the same customers with the similar products (e.g. automobiles)
- Competition exists between products that can be substituted for one another. (e.g. diesel for petrol)

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• Competition exists among all organizations that compete for the consumer's purchasing power (e.g. entertainment)

Pure competition has many firms, all selling identical products, no one firm is powerful (e.g. rice). Monopolistic competition has a large number of firms selling slightly differentiated products (e.g. cosmetics). Oligopoly is a small number of firms selling that can act collusively (Internet Service Providers). Monopoly is a single firm selling in the market for which there is no close substitute (e.g. Indian Railways).

3.6.2 Economic Environment

The economic environment consists of factors that affect consumer purchasing power and spending patterns. Economic factors include business cycles, inflation, unemployment, interest rates, and income. A business enterprise is affected by various economic forces which cannot be controlled by the business. They are classified into two categories, namely, i) Demand force and ii) Competitive force. For the survival and growth of a business enterprise, there should be adequate demand for its products. At the same time, it has to compete with the rival firms producing similar products or substitute products. The economic environment of a business enterprise deals with the study of factors affecting the demand for a product and the types of competition in which the firm has to acquit itself.

3.6.3 Technological Environment

The present era is the era of technology. The technological environment refers to new technologies, which create new product and market opportunities. Technological developments are the most manageable uncontrollable force faced by marketers. Every business enterprise needs to be aware of the latest technology in order to turn these advancements into opportunities and a competitive edge. Technology has a tremendous effect on life-styles, consumption patterns, and the economy. Advancements in technology can start new industries, radically alter or destroy existing industries and stimulate entirely separate markets. The rapid rate at which technology changes has forced business organizations to quickly adapt in terms of how they develop, price, distribute, and promote their products.

3.6.4 Political and Legal Environment

Of the various environments affecting a business enterprise, political and legal environments stand foremost, as they affect the business in every sphere and almost every day. Business organizations should operate within a framework of government regulations and legislation. Government relationships with organizations encompass subsidies, tariffs, import quotas, and deregulation of industries. Political forces will decide the nature of business, programmes and projects to be undertaken for the development of a country. These political forces can be classified as: (a) Long term forces; (b) Quick changes; (c) Cyclical changes; and (d) Regional factors. Special interest groups have grown in number and power putting more constraints on marketers. The public expects the business organizations to be more ethical and responsible (e.g. the response by marketer to special

interests is green marketing – the use of recyclable or biodegradable packing materials as part of marketing strategy).

The business law of the country is a complex system of regulations and interventions that form the legal environment of a business. The major purposes of business legislation include protection of companies from unfair competition, protection of consumers from unfair business practices and protection of the interests of society from unbridled business behavior.

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3.6.5 Demographic Environment

Demography is a study of human population with reference to its size, density, distribution, location, age, sex, race, occupation and other connected vital statistics. Demographics will tell the marketer who the current and potential customers are; where they are; and how many are likely to buy what the marketer is selling. Changes in the demographic environment can result in significant opportunities and threats presenting themselves to the organization. Demographic factors influence to a greater extent the working of a business firm. The density of population, the extent of standard of living, the level of their education and the nature of their occupation, etc. greatly influence the type of business the entrepreneurs could undertake and advertisement and marketing styles of the business. Further, the demographic factors are recognized as the base for the government to proclaim it's industrial and licensing. Major trends for marketers in the demographic environment include worldwide explosive population growth; a changing age, ethnic and educational mix; new types of households; and geographical shifts in population.

Check Your Progress

I Fill in the Blanks:

1. —— environment implies the factors and forces in the immediate environment which affect the company's ability to serve its market.
2. —— environment refers to factors which are external forces in company's activities and do not concern immediate environment.
3. Factors/forces which directly affect the market operation ability of the company are ——.
4. Factors/forces which indirectly affect the market operation ability of the company are ——————.
5. —— environment consists of custom, belief, values, life styles, tastes and preferences of people.

3.6.6 Social and Cultural Environment

Social and cultural attitudes of a region influence the business organizations of the region in a variety of ways. The social and cultural forces are the most difficult uncontrollable variables to predict. It is important for the marketers to understand and appreciate the cultural values of the environment in which they operate. The cultural environment is made up of forces that affect society's basic values, perceptions, preferences, and behaviours. Changes in social and cultural environment affect customer behavior, which affects sales of products. Trends in the cultural environment include individuals changing their views of themselves, others, and the world around them and movement toward self-fulfillment, immediate gratification and secularism.

3.6.7 Geographical and Ecological Environment

Geographical conditions, to a greater extent, influence the type and location of industries and business in a region. Generally, the people of a particular geographical region will have similar tastes, preferences and requirements. For example, commodities that are largely demanded in Tamil Nadu may not be demanded in Kerala. The geographical situation, the physical feature, the climate, rainfall, humidity, the vegetation, etc. decide the type of living in a particular region and only those industries which could cater to the needs of the people, could develop in that region. For instance, In India, cotton textiles are located in

Mumbai and Coimbatore regions due to favourable climate and Jute industry is located at Kolkata due to the favourable geographical and climatic conditions to grow the raw material.

The ecosystem denotes the relationship between living and non-living things as a whole in a particular region. It refers to natural systems and its resources that are needed as inputs by marketers or that are affected by marketing activities. Green marketing or environmental concern about the physical environment has intensified in recent years. In India, the environmental consciousness has a strong presence in recent years. To avoid shortages in raw materials, business firms can use renewable resources (such as forests) and alternatives (such as solar and wind energy) for non renewable resources (such as oil and coal). The business units can build goodwill by voluntarily engaging in pollution prevention activities.

3.7 TRENDS IN MARKETING ENVIRONMENT

The study of the marketing environment revolves around change in the environment. Technological innovation, economic fluctuations, changing social values and demographic trends, political change, aggressive international competition and countless other variables are constantly changing the marketing environment to such an extent that they not only affect the performance of business detrimentally but also threaten their existence.

As a component of the environment, the business organization is therefore at the center of environmental change and is constantly exposed to change. The end result of this change is a new environment with new trends which can be classified into the following three groups.

§ Trends which constitute opportunities for marketing management: A favourable situation in the environment in which the business has a competitive advantage and has the necessary resources to utilize this. The main advantage resulting from change is probably the creation of new markets and the broadening of existing ones.

- Trends which pose particular threats to marketing management: An unfavourable situation in the environment which, if it is allowed to go unchecked, may have a detrimental effect on the performance or survival of the business.
- Trends which may appear but which have no implications for the business or the industry.

Successful organizations that adapt to the environment are those that constantly scan the environment and adjust their strategies to keep abreast of change. Adjusting strategies is therefore nothing more than those steps which marketing management takes to gain a particular environmental fit for the business. Successful marketers do not delay their strategy adjustments until the environment has changed so drastically that nothing can be done about it. They continually scan the environment and manage proactively.

3.8 ENVIRONMENTAL SCANNING

Environmental scanning is a process of gathering, analyzing, and dispensing information for tactical or strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or considering entering. It refers to careful monitoring of a firm's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans. In comparison, 'surveillance' is confined to a specific objective or a narrow sector.

Thus, Environmental scanning is concerned with gathering of large amount of information to measure and study the changes in the environment is called environmental scanning. The environment scanning is taken into business scenario. It is very important for any business to get the latest information about the environment to keep his business steady and stable. In large and small organization the environmental scanning is must. The environmental scanning as the point of business is the businesses have to look what is going around them whether the market is saturating, is there need for product innovation.

The benefits to environmental scanning for the businesses are that they can uncover many issues that have an affect on the organizations mission and goals. They might use it to increase their profits ratio. One of the motives could be for the environmental scanning is that they can know that whether the market is going as they expected it. One of the latest methods for the environmental scanning which are frequently used by the companies is the computer intelligence. By using these processes the businesses get information about their rivals. So this is very latest technological way for keeping eye on your business. Many of the third party services who provide this to other companies are doing environmental scanning.

There are three ways of scanning the business environment:

- Ad-hoc scanning - Short term, infrequent examinations usually initiated by a crisis
- Regular scanning - Studies done on a regular schedule (say, once a year)
- Continuous scanning (also called continuous learning) - continuous structured data collection and processing on a broad range of environmental factors
- Most commentators feel that in today's turbulent business environment the best scanning method available is continuous scanning. This allows the firm to:
- act quickly
- take advantage of opportunities before competitors do
- respond to environmental threats before significant damage is done

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Check Your Progress

Check whether the following statements are true or false:

6. Marketing intermediaries and publics are elements of micro environment.
7. Technological forces are related to micro environment.
8. A company does not directly or indirectly interfere with the macro environment.
9. The macro environment forces are less controllable than the micro environmental forces.
10. Customers and suppliers are not the elements of micro environment.

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3.9 KEY TERMS

- **Marketing Environment**

  It refers to all forces both external and internal that affect marketing policies, decisions and operations of any organization.

- **Micro Environment**

  It refers to those individuals, groups and agencies with which the organizations comes into direct and frequent contact in the course of its functioning.

- **Macro Environment**

  It refers to the General environment or remote environment within which a business firm and forces in its micro environment operate.

3.10 SUMMARY

The political, economical, social, cultural and technological environment of a business enterprise strongly determines the type of marketing initiatives that should be taken for marketing of its products or services. The business entrepreneurs have to consider the various internal and external factors in their marketing decisions. Thus, an enterprise with an environment management perspective takes aggressive actions to affect the forces in its marketing environment rather than simply watching and reacting to it.

3.11 ANSWERS TO CHECK YOUR PROGRESS

1. Micro
2. Macro
3. Controllable
4. Uncontrollable
5. Socio-Cultural
6. True
7. False
8. True
9. True
10. False

3.12 QUESTIONS/EXERCISES

Section A

1. What is Marketing Environment?
2. What are the internal factors influencing the marketing activities of a business enterprise?

3. What are the external factors influencing the marketing activities of a business enterprise?

4. Explain the significance of environmental scanning.

Section B

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1. Explain how changes in technological and political environments affect the marketing activities of a business unit.

2. Describe how the social and cultural environments affect the marketing activities of a business unit.

3. Discuss the recent trends in marketing environment.

3.13 FURTHER READINGS

1. Sankaran, S (2001), "**Business Environment**", Margham Publications, Chennai.
2. Vasant Desai (1997), "**Dynamics of Entrepreneurial Development and Management**", Himalaya Publishing House, New Delhi.
3. Khanka, S.S (2006), "**Entrepreneurial Development**", S.Chand, New Delhi.00

UNIT 4 MARKET SEGMENTATION

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Structure

4.0 Introduction
4.1 Unit Objectives
4.2 Market Segmentation
4.3 Characteristics of Market Segmentation
4.4 Benefits of Market Segmentation
4.5 Bases for Consumer Market Segmentation
4.6 Bases for Industrial Market Segmentation
4.7 Alternative Strategies to Market Segmentation
4.8 Key Terms
4.9 Summary
4.10 Answers to Check Your Progress
4.11 Questions/Exercises
4.12 Further Readings

4.0 INTRODUCTION

Markets for most of the products are heterogeneous and not homogeneous. No two potential buyers of a – product are ever identical in all respects. They may differ in buying habits, in using the product and motives for buying or such other factors. As such if the matting management analyses it as a whole market, it cannot attain the maximum benefit. Therefore for the proper analytical study of market the whole market, is divided into many submarkets, according to the distinctive characteristics of the consumers who constitute the market. Each such submarket is called a market segment. Thus the market segmentation is the strategy of dividing markets in order to conquer them.

4.1 UNIT OBJECTIVES

- To understand the meaning and importance of market segmentation
- To appreciate the benefits of market segmentation
- To discuss the bases for consumer market segmentation
- To discuss the bases for industrial market segmentation
- To describe the alternative strategies to market segmentation

4.2 MARKET SEGMENTATION

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No two customers are similar in their wants. It is to identify the groups of buyers on the basis of difference in their desires or requirements. The process of dividing the market on the basis of interest, need and motive of the customer is called segmentation. Thus, segmentation is a consumer oriented marketing strategy. It is the strategy that subdivides the target market into sub-groups of consumers with distinct and homogenous characteristics with a view to develop and follow a distinct and differentiated marketing programmes for each sub-group in order to enhance satisfaction to consumers and profit to the marketer.

According to Philip Kotler, "Market segmentation is sub-dividing of a market into homogeneous sub-sects of customers where any sub-sect may conceivably be selected as a market target to be reached with a distinct market mix".

According to Prof. William Stanton, "Market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-markets or segments each of which tends to be homogeneous in all significant aspects".

From these two definitions we can understand that market segments are groupings of two or more consumers who have common characteristics as buyers of a product or service so that their needs are better served.

4.3 CHARACTERISTICS OF MARKET SEGMENTATION

The main characteristics of the effective market segmentation are discussed below:

4.3.1 Measurability

The main purchase of the market segmentation is to measure the changing behaviour of consumer. The size, profile and other relevant characteristics of the segment must be measurable and obtainable in terms of data. Variations in consumer behaviour may be both numerous and complex. Therefore, segments should be capable of giving accurate measurements. Segment should be under constant review which sometimes seems to be difficult due to time and budget constraints. For example, the segment of automobile market say car is motivated by number of factors such as economy, status, quality, etc.

4.3.2 Substantiality

It refers to the size of segmented markets. Segments must be large enough to be profitable. For the small segment, it may not be possible for the marketer to develop separate marketing mix for such non-profitable segments. It means, demand from one segment must be large enough to make the marketing efforts worthwhile.

4.3.3 Accessibility

The segment should be accessible through existing network of people at a cost that is affordable. Accessibility could be attained though the existing channel of distribution

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like advertising media and salesman of the company cannot determine which media is needed to reach them, the market segmentation is useless. Even if segmentation characteristics can be identified and measured, the most important factor is that they could be freely accessible.

4.3.4 Differentiability

The segment should be large enough to be considered as a separate market. Such segment must have individuality of their own so that it leads to different segments.

4.3.5 Auctionable

The segments which the company wishes to pursue must be auctionable in the sense that there should be sufficient finance, personnel and capability to take them all. Hence, depending upon the reach of the company, the segments should be selected.

4.3.6 Nature of Demand

Segmentation is required only if there are marked differences in the nature of demand. Nature of demand refers to different quantities demanded by various segments. Each segmented market must exhibit difference in consumption rates from another segment. For example, demand of Amul Chocolate is same in each segment i.e., 0-5 years, 5-20 years, and 20-40 years and 40 years and above. It means, segmentation by age is ineffective, since the age variable does not affect the value of consumption of the product and hence no segmentation required.

4.3.7 General Considerations

Apart from the above characteristics, the segment must have growth potential, be profitable, carries no unusual risk and has competitors who do not fight directly with the product or brand.

4.4 BENEFITS OF MARKET SEGMENTATION

The segmentation analysis will help the marketing manager in the following ways.

1. Channelising money and effort to the most potentially profitable segments of the market.
2. Designing the products that truly parallel to the demands of the market.
3. Giving information regarding a major trend in a swiftly changing market in order to take advantage of it by preparing the products to the expected changes in market.
4. Determining what promotional appeals would be most effective for the company.
5. Choosing advertising media more wisely and determining the proportion of budget that should be allocated to each medium.
6. Correcting the timing of the advertising efforts so That they are heaviest / during those times when response is likely to be at its peak.
7. Understanding the demographic market information and applying it in scores of new and effective ways.

4.5 BASES FOR CONSUMER MARKET SEGMENTATION

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There are many ways by which a market can be segmented. But methods of market segmentation will vary from product to product. Broadly market can be classified into two types. They are consumer market and industrial market. Ultimate consumers constitute the consumer market and industrial u4rsconsUtute the industrial market. These two markets differ in many ways. For instance ultimate consumers buy in much smaller quantities and generally for consumption, whereas industrial users make bulk purchases and use them gimeral ly' for further production of wealth. So marketers must use significantly different approaches in marketing products to each of these two broad classifications of markets.

This division - consumer market and industrial market-is too broad that each part is too extensive to be properly considered as a market segment. Consequently consumer market and industrial market are-

The consumer market may be segmented on the basis of population, age, sex, income, degree of urbanisation, education, occupation, religion etc. These represent some but not all the possible ways in which markets can be segmented. Prof. Kotler segments the consumer market on the basis of the four variables .geographic variables, demographic variables, psychographic variables, and buyer behaviour variables.

4.5.1 Population Market Segments

Marketing men should analyse the distribution and composition of population of a country or area, as population is one of the main components of market.

The total population of India in 2001 was 103 crores as against 28.83 crores in 1901, which means that it has increased almost four times within a period of 100years. Marketing occupies an important place as the population of a country increases rapidly. Because of the rapid growth in population the total amount spent in various consumer goods and services by the increasing population reaches an astronomical figure. For better and proper study of the national market, it must be analyzed in segments.

4.5.2 Regional Distribution

Out of the total population of the country Uttar Pradesh occupies the first rank with regard to size of population. Thi State is followed by Maharashtra and Bihar. About 90% of the total population of the country lives in Uttar Pradesh, Bihar, Maharashtra, West Bengal, Andhra Pradesh, Madhya Pradesh, Tamil Nadu, Karnataka, Gujarat, Rajasthan, Orissa and Kerala. The biggest markets of the country lie in these States.

The regional distribution of population is very important to marketing as sectional differences exist in the demand for many products due to climate, religion, social customs, and other factors. For instance woolen fabrics are needed in Northern India where cold climate prevails for most part of the year and cotton fabrics are needed in southern India,

where the climate is very hot for most part of the year: In winter hot drinks like coffee and tea are preferred and in summer, cool drinks are preferred.

Shifts and trends in regional distribution of population are also very important to marketing as it may influence policiės regarding the channels of distribution.

4.5.3 Urban and Rural Distribution

India is a country of villages. In 1921 out of the total population 88.8% lived in villages and in 1971, 80.1 % lived in villages. In 2001 almost 72% live in villages. It means the rural market is still a large one. Many people in rural areas are cherishing the need for the superior type of clothes, transistors, wrist watches, chappals and varieties of plastic bangles due to their contact with the urban people.

India has 5,66,878 villages. The villages are of different sizes. About 3,61,650 villages have a population of less than 5,000 ; 3,421 villages have a population of more than 5,000 but less than 7,000 ; 726 villages have a population 10,000 and above. As the size of the rural market is a larger one, marketing people would try to build on their market in these villages, may be for consumers' utensils, daily necessities etc. India has 2641 towns and cities. Out of the total population about 10.88 crores live in urban areas. Out of these 147 towns are having a population of more than one lakh each out of which 9 cities are having a population of more than 10 lakhs. Urban people may need products like cosmetics, cycles, scooters, electrical appliances and furniture.

4.5.4 Sex as a basis for market segmentation

Sex is probably an obvious basis for consumer market segmentation. Market segmentation by sex is also useful because many products have traditionally been purchased by one sex or the other. For instance, in U.S.A husbands were attributing primarily to car purchases and wives were controlling the purchases of household goods and furniture.

The roles of women have undergone considerable change in Indian society. Nowadays, they are taking a greater role in economic and political activities. More women (married or single) are employed in the work force and have incomes of their own to spend.

With women playing an increasingly important role in buying" decisions and consumption, it is important to recognize the shifts in sexual composition of the population in India. Out of the total population of 2001 (103 crores) 53 crores or 51.6% are males and 50 crores or 48.4% are females. However, it is significant to note that the number of women has been falling since 1901 when there were 972 females per 1,000 males; it went down to 950 in 1931, 941 in 1961 and 933 in 2001. Women in India generally purchase cosmetics, jewelley, 91'ass bangles and domestic appliances.

Market segmentation along sexual lines exists only for some but not for all products. For instance men and women do not differ significantly as buyers of toilet soap, hair oil and toothpaste. Yet, for a wide variety of goods - cosmetics, and costumes - men and women

are in different market segments. Thus these two market segments often require different marketing strategies.

4.5.5 Age as the basis for marketing segmentation

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The size of different age groups has a substantial effect, on the market for certain products. When market segments are set up in terms of chronological age, the total population may be separated into such groups as children, teenagers, adults and the old.

The children's market segment has long been recognised as a direct group of consumers. This market segment carries a three-way marketing impact. Firstly, these children can influence the parental purchases: secondly lakhs of rupee are spent on this group by their parents; and thirdly these children themselves make purchases of goods and services for their own personal use and satisfaction. Many products are designed specially for this market segments. It includes not only clothing and toys but such items as scaled -down furniture and specially prepared foods, beverages, stationery etc. The marketing problem of this segment is-nique because the child, who actually uses or consumes the product, is seldom the one who does the buying. But as the marketers know that the children can influence the buying decisions, of their parents, they are focusing their advertising media on children. So marketers should plan their marketing strategy to capture such markets. In order to capture this market segment many manufacturers open large departmental stores in suitable localities.

The teen-agers market has been recognised as an important one. They are good customers for automobiles, cosmetics, clothes, jewellery and other products. In order to tap this market, many manufacturers are adopting new products and distribution policies. For instance, some clothing manufacturers are now designing ready-to-wear dresses to suit the teenage girls.

Another market segment on the basis of age which should not be over-looked is the group of persons in the middle and old age. People who are in the middle age are at the peak of their earning power. Thus this market segment is a good target for the market of high-priced, high quality products and services. The other older age group, who are generally above 65, generally require health-products, ready-made clothes and some magazines. Promotional programmes may be developed to appeal to the buying motives of this group and to cater to their buying habits.

4.5.6 Other demographic bases for segmentation

The market for some consumer products are influenced by' such factors as education, occupation, religion and income. We shall discuss each of them separately.

4.5.7 Education

In India the percentage of literacy is still low, the average being 65 %. Out of the total males 76% and of the females 54% can read and write. Percentage of literacy varies from state to state. However, after independence, much expansion has been taking place in the field of education.

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The increase in the number of children entering primary schools along with an increase in the number of persons entering the higher education has resulted in an increase in the demand for more stationery, books, slates, pencils and a number of other articles. To cater the needs of the school going children, many new printers, publishers, book-sellers have sprung up.

4.5.8 Religion

For some products it is quite useful to analyse the population on the basis of religion. In our country, a large number of religious beliefs are professed by different communities. Hindu community ladies would usually prefer saree and blouse. Christians may use long skirts and Muslim ladies would need pyjamas and kurtas. To market successfully to people who follow different religion, a company must understand something about their buying behaviour and the motivation.

4.5.9 Occupation

To identify and analyse some segments, occupations may be a meaningful criterion, because occupation is the source of income for any individual. People have different occupations, and they are functionally classified as carpenters, mechanics, truck drivers, professors, lawyers etc. Their income depends upon their occupation. So the buying pattern of a carpenter is different from that of a professor because of the influence of attitudes, interests and other factors. A good marketer would keep all these in mind white promoting the sale of products.

4.5.10 Income

Income is the main source of purchasing power, so segmentation based on income is entirely logical. People alone do not make a market. They must have money to spend, consequently a detailed study of income, its distribution and how it is spent, will be useful to the marketer.

What is income? This is the first question to be answered. According to Professor William J. Stanton there are three different concepts of Income. They are (1) National income, (2) Personal income and (3) Disposable Income.

The nation's aggregate earnings of labour and property yield national income. The personal income is the sum total income of a person (individual owners, sole proprietorships, partnerships, joint ventures etc) derived from wages, salaries, dividends, rent, interest, business and professions. The amount available for personal consumption, expenditure and savings will be called disposable personal income.

4.5.11 Discretionary purchasing power

The amount of disposable personal income, which remains after all fixed and essential expenditure have been made is called discretionary purchasing power. The information about disposable personal Income or discretionary purchasing power is not available in India.

The per capita expenditure in rural and urban areas is Rs. 20 and Rs. 30 respectively (as per the 19th NSS Round) while about 70% of personal consumption expenditure in rural areas was on food and it was 60% in urban-areas. A study on -the pattern of consumer's expenditure, like this, will definitely help the marketer to plan his marketing strategy.

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4.5.12 Income distribution

To get full value from analysis is of income; a marketing manager should carefully study the variations and tends in the distribution of income among regions and among population groups. In India still many families are in low income group. At the same time the existence of large number of middle income groups has necessitated the upgrading of quality goods and offering additional services such as home delivery or concessional rates. The higher income groups do have some surplus money to purchase jewellery, costly costumes and other luxuries.

Check Your Progress

I Fill in the Blanks:

1. If a company follows one product, one segment principle, it is called ————.
2. If a company follows one product, all segment principle, it is called ————.
3. A Market that consists of individuals with dissimilar product needs is called ——.
4. —— is the process of grouping buyers into different categories with common needs.
5. A Market that consists of individuals with similar product needs is called ——.

4.6 BASES FOR INDUSTRIAL MARKET SEGMENTATION

Industrial users make purchases for further production of other goods and services. Any individual or organisation that makes purchase in order to facilitate the performance of manufacturing or marketing institutional activities, is an industrial user. In short, we can say, that if any organisation purchases some goods and services not- for resale in the same form but in order to use them in connection with its operation, it is classified as an industrial user. Therefore, as the wholesalers, retailers and other middlemen buy the products for resale. In the same form they are not considered as industrial users. But when retailers, and other middlemen buy products and services (not for resale in the same form) for use in furthering their operations they are considered as industrial users.

The industrial market consists of the industrial users. The industrial market is a large one like the consumer market, made up of many segments. Separating the industrial users into groups facilitates analysis of the industrial market. These are many bases for segmenting the industrial market. Four are important among them.

They are:

(1) Kind of business or activity.

(2) Geographical location of the user,

(3) Usual purchasing procedure, and

(4) Size of the user.

4.6.1 Kind of the business or activity

One of the most useful ways of segmenting the industrial market is known as the standard industrial classification system of S.I.G. This system is used by practically all government agencies. Under this system, all places of business are classified into divisions as follows:

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1. Agriculture, forestry and fisheries.
2. Mining
3. Construction
4. Manufacturing
5. Transportation and Communication
6. Wholesale and retail trade
7. Finance, insurance and real estate
8. Services
9. Governments and
10. All others of non-classifiable establishments

These ten divisions cover the entire field of economic activities. These ten divisions may be further divided into several major groups. For example, the manufacturing division may be further divided into several major groups as textile mill products, printing and publishing and chemical and allied products.

4.6.2 Geographical location of the user

Industrial market, like the consumer market, can be also segmented on a geographical basis. The way in which industrial marketing is conducted in different areas varies because of such factors as variations in topography, climate etc. For example, the topography of an area affects the types and cost of transportation available for shipping industrial goods. Similarly, variations in climate affect the needs of industrial users for building materials. In the same way differing regional tradition may show up in a greater demand for labour saving devices in areas where wage rates are relatively high. Moreover some kinds of business and service organisations seem to settle in certain areas. In the same way, different geographical segments of the Industrial market exist, because locations of certain industries have been dictated by the source of raw materials.

4.6.3 Usual purchasing procedures

Generally industrial users are more systematic buyers than the ultimate consumers. But there is much variation even among Industrial users, in the amount of consideration given to buying different items. For example, to a firm purchasing a major installation requires technical investigations and the approval of the high level management committee in the firm. But, purchasing ordinary items like stationery will not require much investigation, because it is only a routine requirement of an ordinary nature.

4.6.4 Size of the user

There is a much wider range in the size of customers in the industrial market than there is in the consumer market. Industrial user may vary from the small machine shop in an old garage to industrial giants. Therefore, the size of an industrial purchase may vary greatly. Normally it is more economical to sell in large tots than small. Moreover, the industrial marketer often fixes lower prices for purchasers, who are placing bulk orders than for

those who are placing small orders. Thus ample reason exists for market segmentation based on the size of the industrial user.

4.7 ALTERNATIVE STRATEGIES TO MARKET SEGMENTATION

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Based on the characteristics of buyer behaviour, the market segmentation can be developed and practiced under three alternative strategies or bases.

1. Concentrated Marketing
2. Undifferentiated Marketing
3. Differentiated Marketing

4.7.1 Concentrated Marketing

A company can concentrate its marketing efforts towards some selected segments within the total market. Instead of going after a small share of a large market, the firm goes after a large share of one or two or a few sub-markets. It may select a market area where there is no strong competition and it can do best in that area. By doing this, the small firm can compete and create monopoly in the market. The best example of a company practicing the concentrated marketing strategy is the case of a publishing house. Some publish the text books at school level, some others at college and university levels. If the text books are categorized, further specialization is also possible.

Check Your Progress

State whether the following statements are true or false:

6. Segmentation which mainly applied on clothing, hair dressing, and cosmetics is based on sex.
7. Segmentation can be done on the basis of geographical location.
8. Family size is a psychographic basis for market segmentation.
9. Market integration is the strategy of counter segmentation.
10. Demographic segmentation is based on age, sex, education, marital status, etc.

4.7.2 Undifferentiated Marketing

In this strategy, the marketer may not prefer differentiated marketing and market segmentation. One marketing mix i.e., only one quality of product is produced and sold in the market for all customers with the help of common marketing programme. The policy of undifferentiated marketing was much more common in the past. Although marketing managers recognize the existence of numerous segments in the total market, they generally ignore minor differences and focus on the broad market. To reach the general market, they use mass advertising, mass distribution and broad themes. Instead of practicing market segmentation, they focus on an aggregated market.

4.7.3 Differentiated Marketing

Under this strategy, a company enters many market segments but with the unique marketing mix appropriate for each segment. The seller produces and sell different products with different marketing strategies in each segment as per the need and wants of the customers of particular segment.

Product differentiation is a business level strategy in which firms attempt to create and exploit differences between their products and those offered by competitors. These differences may lead to competitive advantage if customers perceive the difference and have a preference for the difference A product differentiation strategy requires that a firm be able to effectively communicate with customers through advertising, public relations, sponsoring of events, etc.

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In marketing, Product differentiation is the process of distinguishing a product or offering from others, to make it more attractive to a particular target market. This involves differentiating it from competitors' products as well as a firm's own product offerings.

Differentiation can be source of competitive advantage. Marketing or product differentiation is the process of describing the differences between products or services, or the resulting list of differences. This is done in order to demonstrate the unique aspects of a firm's product and create a sense of value. Differentiation is due to buyers perceiving a difference; hence causes of differentiation may be functional aspects of the product or service, how it is distributed and marketed, or who buys it. Most people would say that the implication of differentiation is the possibility of charging a price premium; however, this is a gross simplification. If customers value the firm's offer, they will be less sensitive to aspects of competing offers; price may not be one of these aspects. Differentiation makes customers in a given segment have a lower sensitivity to other features (non-price) of the product

4.8 KEY TERMS

- **Market Segmentation**

  It is the process of dividing a market into homogeneous markets based on interest, need and motive of the consumer.

- **Differentiated Marketing**

  It is a strategy where the seller produces and sells different products with different marketing strategies in each segment as per the need and wants of the consumers of particular segment.

- **Concentrated Marketing**

  It is a situation in which a firm goes after a large share of one or two or a few sub-markets instead of going after a small share of a large market.

- **Consumer Market**

  It is a Market for buying and selling of consumer products.

- **Industrial Market**

  It is a Market for buying and selling of industrial products.

4.9 SUMMARY

Market segmentation is necessary to successful marketing strategy. Different companies are adopting different strategies to different market segments. Some companies are totally ignoring the market segments, while others may develop a variety of goods to meet the different needs of the people under different marketing programmes and some may go after only a few segments. Anyhow, it is better for all the firms to analyse attractiveness of different segments as a prelude to setting target goals.

4.10 ANSWERS TO CHECK YOUR PROGRESS

1. Concentrated Marketing
2. Undifferentiated Marketing
3. Heterogeneous Market
4. Market Segmentation
5. Homogeneous Market
6. True
7. True
8. False
9. True
10. True

4.11 QUESTIONS/EXERCISES

Section A

1. What is Market Segmentation? Explain its importance.
2. What are the characteristics of market segmentation?
3. State the benefits of market segmentation.
4. What are the alternative strategies to market segmentation?

Section B

1. Discuss the different bases for segmenting consumer market.
2. Discuss the different bases for segmenting industrial market.
3. Describe the procedure that you would follow in segmenting the market for the following products:

a) Soft drinks

b) Personal Computer

4.12 FURTHER READINGS

1. R.S.N.Pillai and Bagavathi, (2007), "Modern Marketing – Principles and Practices", S.Chand & Co. Ltd., New Delhi.

2. S.P.Bansal (2004), "Marketing Management", Kalyani Publishers, New Delhi.

3. William J.Stanton et al (1994), "Fundamentals of Marketing", McGraw Hill International Editions, New York.

UNIT 5 BUYER BEHAVIOUR

Structures

5.0 Introduction

5.1 Unit Objectives

5.2 Buyer Behaviour

5.3 Need for Studying Buyer Behaviour

5.4 Determinants of Buyer Behaviour

5.5 Buying Motives

5.6 Buyer Decision Making Process

5.7 Key Terms

5.8 Summary

5.9 Answers to Check your Progress

5.10 Questions/Exercises

5.11 Further Readings

5.0 INTRODUCTION

Any firm or business unit which is operating under marketing management concept should focus all its activities on the consumer. Any firm which fails to fulfill the needs and satisfy the wants of consumers would not survive long in a competitive environment. Thus, the success or failure of a business in the market place is determined to a large extent by how well the needs and wants of its customers are understood and fulfilled. Therefore, business concerns must endeavor to understand the complexities of consumer behaviour and give due weight to what they believe to be the more important forces acting on the consumer. To develop a successful marketing programme a company should learn as much as possible about its customers, motives, attitudes, beliefs, interests, values and other psychological variables. Sound marketing decisions are based on knowledge of consumer motivations. Behaviour should be looked at as a channel through which multiple needs are expressed and satisfied. In this lesson, consumer behaviour and the forces underlying that behaviour will be discussed.

5.1 UNIT OBJECTIVES

- To understand the meaning and need for studying buying behaviour
- To identify and describe the determinants of buyer behaviour
- To appreciate the significance of buying motives
- To describe the steps in buyer decision making process

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5.2 BUYER BEHAVIOUR

The process whereby individuals decide whether, what, when, how and from whom to purchase goods and services is called buyer behaviour. The buyer behaviour is actions of buyer in the market place and the underlying motives for those actions. Marketers expect that by understanding what causes buyers to buy particular goods and services, they will be able to determine which products are needed in the market place, which are obsolete and how best to present those goods to the consumer. The reasons why consumers buy particular products or brands are termed as 'buyer behaviour'. Thus, the behaviour of buyer at the time of purchasing is called buyer behaviour.

The buyer behaviour is defined as "those acts of individuals (consumers) directly involved in obtaining, using and disposing of economic goods and services". It consists of both physical and mental activities. The physical activities involve visiting a shop, examining and selecting a product. On the other hand, the mental activities involve forming the attitude, perceived communication material and learning to prefer a particular product.

5.3 NEED FOR STUDYING BUYER BEHAVIOUR

Buyer behaviour is very complex and is determined to a large extent by social and psychological factors and it is necessary for a marketing manager to understand properly before he plans his marketing strategy. All the customers have different tastes, likes and dislikes and adopt different behaviour patterns, while making purchase decisions. The study of buyer behaviour will provide us with reasons why consumers differ from one another in buying and using products and services.

To survive in the market, a firm has to constantly innovating and understands the latest consumer needs and tastes. It will be extremely useful in exploiting marketing opportunities and in meeting the challenges that the Indian market offers. Thus, the study of buyer behaviour for any product is of vital importance to marketers in shaping the fortunes of their organizations. It is also significant for regulating consumption of goods and thereby maintaining economic stability. The applied discipline of buyer behaviour is useful in developing ways for the more efficient utilization of resources of marketing. It also helps in solving marketing management problems in more effective manner. Through the study of buyer behaviour, the micro and macro marketing problems can be better understood. To understand the marketing mix and marketing process, it is essential to understand the buyer behaviour thoroughly i.e., the different needs of the consumers are influenced by various marketing activities. Therefore, the knowledge of the buyer and his buying motives is a fundamental necessity for the marketer.

5.4 DETERMINANTS OF BUYER BEHAVIOUR

The buyer behaviour is influenced by number of uncontrollable factors. If the marketing manager is to use the controllables (i.e, product, price, promotion and distribution)

effectively, clear understanding of these uncontrollables is essential. The combination of various factors like personal, socio-economic and cultural, social and psychological, produce a different impact on each one of us as manifested in our different behaviour as consumers.

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Figure 5.1 Factors influencing Buyer Behaviour

Internal	External
• Needs	• Social Influences
• Motivation	• Business Influences
• Learning	• Family Influences
• Attitude	• Cultural Influences
• Perception	• Economic Influences

Discussion on buyer behaviour up to this stage has been focused primarily on the psychology of the individual. However, a man is not an island into himself and his act and belief are determined to a great extent by these cultural surroundings and with various groups of people with whom he moves. To understand these influences marketing depends upon the fields of sociology and cultural anthropology. The various factors which influence the individual's behaviour as a consumer are discussed in detail as follows:

5.4.1 Culture

In the words of Willam J. Stanton Culture is earned as the complex of symbols and artifacts created by man and handed down from generation to generation as determinants and regulators of human behaviour in a given society. The symbols may be tangible (such as works of art, tools, housing, products) or intangible (such as attitudes, beliefs, values, language, religion) Culture is totally learned and a "handed-down" way of life and does not include instinctive acts. For instance everybody gets hungry but what we eat and how we eat to satisfy the hunger drive will vary among cultures. Every culture evolves unique pattern of social conduct. Actually much of the human behaviour is determined by culture "Culture regulates our lives at every turn from the moment we are born until we die. There is constant conscious and unconscious pressure upon us to follow certain type of behaviour that other men have created for us.

5.4.2 Cultural Change

Cultural influences do change over a period of time as old patterns gradually give way to the new cultural factor in influencing consumer behaviour and styles in many ways. Marketers must be in a position to adjust their marketing programmes to these changing patterns. Some of these changes which have significant marketing implications are discussed here.

5.4.3 The Role of Women

In our society, the role of woman has been changing in recent years. More any more women seek employment and have their own incomes. All over the world the women's liberation 'movement' is spreading rapidly. The women's liberation movement presents some real changes to marketing as well as business and society. Research and survey conducted by the various agencies reported some changing attitudes among woman for

independence fewer children and a new interest in jobs and community. It is up to the marketers to adjust their programmes to the challenge and opportunities presented by the changing role of woman in our society.

5.4.4 Leisure Time

Increasing number of people have greater amount of leisure time from a shorter work week, paid vacations, etc. Increased leisure time has created a large market for goods and services such as radio, television, photography, musical Instruments and outdoor furniture. People have become active consumers for the products and services that go along with increasing leisure. As a consequence of increased leisure time, many companies have added greatly to the number and variety of their products.

5.4.5 Upgraded Tastes and Desire for Higher Standard of Living

In most of the countries, for some years, people have been in the midst of a cultural upgrading which is having influence on marketing. Both economic forces (higher incomes) and social forces (education and mass media) are fostering the upgrading of living habits. Everywhere in the world, this new age of higher standard of living is changing the patterns of consumption and behaviour on the part of consumers. For instance, in India demand for radios, television sets musical instruments, art collections is increasing.

5.4.6 Influence of Environment

Natural environment is another cultural factor, which significantly influences both business and marketing today. A society after acquiring a reasonably high material standard of living turns to improving their standard of life. This has led to significant changes in life styles and whenever life-styles change, of course marketing is also affected. For instance, in most of the countries, shortages in egg and some other commodities changed the consumption patterns.

5.4.7 Social Class

Another important socio-cultural determinant of buyer behaviour is the social class to which he belongs. Every society classifies its members according to some social hierarchy. Different researchers have used different criteria-wealth, occupation, influence, people with whom individuals move etc., class consciousness, and the class status assigned to him by others. A person's buying behaviour is strongly influenced by the class to which he belongs than by his income alone.

The research division of the Chicago Tribune has conducted several studies in U.S.A regarding the relationship between social class, buying behaviour and consumer's perceptions of various products. Three important basic conclusions came out of the Chicago Tribune Study.

1.A social - class system is operative in large metropolitan markets. People differ with respect to their spending behaviour, saving behaviour, patronizing the stores, products they buy, the brands they prefer according to the class to which they belong.

2.There are far reaching psychological differences between classes. People belonging to different classes do not think in the same way and they differ in responding to advertisement and other marketing programmes of the seller.

The concept of social class is most useful in interpreting buyer behaviour only to a limited extent; it does not possess universal applicability. Hence, marketing manager must understand when and in what ways a social class satisfaction is significant in marketing. He must also know the limitations of social class application. Some products are classless. That is social class is relevant only to the extent that is correlated with income.

5.4.8 Reference Groups

A reference group may be defined as a group of people which influences a person's attitudes, opinions and values. A reference group, standards of behaviour, serves as guides of "frames of reference" for the individual.

A consumer's behaviour is very much influenced by the variety of small groups to which he belongs or aspires. These groups, fundamental in determining the social nature of the individual are groups of people involved in intimate, face to face contact and co-operation. Traditionally the most influential primary group, is the family but the emergence of much of this influence has passed to other primary groups particularly peer groups. Peer groups are composed of individuals who spend considerable time together and are of fairly common age and social background. Among children, these are often play groups among adults they include neighborhood and community groups. Other groups which may influence the social nature of the individual are religious, educational and political institutions.

Each individual may be a member in several different primary groups. At work he may be very close to his friendly group of co-worker. As a member of social or political organisation, he may be a part of still other primary groups. Only if these groups are sufficiently homogeneous, they are classified as peer groups. The peer group has the greatest influence on the individual as a consumer because the group's general interests and mode of life are most similar to that of the individual. Knowledge of reference groups and their influence makes it easier to marketers to predict their behaviour it explains, for example why two groups of people in the same age and in the same community adopt different styles of dress or other behaviour even though they are from similar family backgrounds.

5.4.9 Income

Income is the most important economic factor which will influence the consumer demand. There are many products in the market which the consumers want to buy but his income may become a constraint. The consumer's attitudes towards spending versus savings and his borrowing powers are the important influencing factors.

5.4.10 Role of Opinion Leaders

Opinion leaders in one product are (say clothing styles) are not necessarily to be leaders in a completely different area (say food buying), although they may be influential in a related field (say furniture styling). Sometimes, the opinion leader works like a trend

setter, who receives information from mass India and other sources and passing it to the entire group of followers. Opinion leaders and the people whom they influence are very much alike and typically belong to the same primary groups of families, friends and co-workers. While the opinion leader may be more interested in the particular sphere in which he is influential, it is highly unlikely that the persons influenced will be very far behind the leader in their level of interest. Influentials and influences may exchange roles in different spheres of influence.

5.4.11 Personality

The behaviour of every individual differs from another. The life style of an individual reflects his own personality. The personality develops with certain unique characteristics called traits. While highlighting the personality in buyer behaviour, psychologists interested in marketing have often referred to the contribution of personality-traits. The personality traits differ in individual to individual. The important personality traits are Dominance, Independence, Friendliness, Competitiveness, Aggressiveness and Self-Consciousness.

5.4.12 Roles and Status

An individual participant in different group and in each group a person is known by his role and status. Even a person plays different roles in the family. When he is bachelor, he plays a role of son, after marriage he plays role of husband, after getting a child he plays role of father. In the different social position, one has to play different role. Each role influences the purchasing decision. As an officer, a person would like to bear a formal cloths which reflect his status in the organization, but at home he may feel relax in bearing Kurta. Each role carries a status. People prefer for the products that communicate their role and status in the society.

5.4.13 Age and Family Life Cycle Stages

Age is an important factor for segmenting the market as well as to influence the buyer's behaviour. The need for the products varies over their life time. Children like milk, toys, chocolates, etc. according to their age while their likes will be different when they entered the school age and teenage. Consumption behaviour is also influenced by the specific stage of the family life cycle.

5.4.14 Education and Occupation

Education widens a person's horizon. An educated person is more inclined towards advertisements than less educated one. The occupation also shapes the consumption needs. The chief executive of the organization will buy car, three pieces suit, best fabric, services of airlines, five star hotel, etc. to fulfill his requirements as well as to maintain his status. On the other hand, a junior manager of the same organisation may also purchase the same things but has to compromise in the quality. Thus, a marketer tries to design different products to cater to the needs of different occupational groups.

5.4.15 Face to Face Groups

Groups that have the most immediate influence on a person's tastes and opinions are face-to-face groups. This includes his family, close friends, neighbours, fellow workers and so forth.

Of all the face-to-face groups, the person's family, undoubtedly plays the largest and most enduring role basic attitude formation. Parent's formative influence on the eventual attitudes of children is undeniably great. A child learns from his parents about the goodness of religion, politics, thrift, chastity, food, human relation and so forth.

5.4.16 Life Styles

Every individual has its own life style. The life style of the consumer reflects from their own activities, thinking views, etc. Different roles played and status in the society reflects the life style. For example, in the organization he is playing a role of manager but at the same time at home he may also play the role of son, husband and father. The manner in which he blends these different roles reflects their life style. Moreover, it has been observed that customers coming from different sub-cultures, social class, occupations, etc. bear different life styles. Life styles are identified by taking various activities, interest, opinions and demographics (AIOD) as below:

- Activities (Work, Hobbies, Social Events, Vacations, Entertainments, Clubs, Community, Shopping and Sports)
- Interests (Family, Home, Job, Community, Recreation, Fashion, Food Media and Achievements)
- Opinion (Themselves, Social and Political Issues, Business, Economics, Education, Products, Future and Culture)
- Demographics (Age, Education, Income, Occupation, Family Size, Dwelling, Geography, City size and Stage in Life Cycle)

5.4.17 Family

As a unit, the family is an important consumer for many products as the tastes, likes, dislikes and life styles of a person are rooted in the family itself. It helps in shaping the pattern of consumption and influencing the decision-making roles. The members of the family pay different roles such as *Influencer* – the person who influence the buying decision, *Initiator* – the person who senses the need for the purchase, *Decider* – the person who takes the final buying decision and *user* – the persons who ultimately use the product.

5.4.18 Need and Motivation

Buying motives of an individual are based on his needs. All human beings have different needs at all the time whether they conscious of it or not. All human needs were classified into five hierarchical categories by Maslow as follows:

a) Physiological Needs are basic for human survival and include need for survival such as food, water, air, shelter, sleep, thirst, sex, etc.

b) Safety and Security Needs are physical as well as psychological security which include safety of person and property, order stability, etc.

c) Social Needs are related to belongingness, friendship, love, affection, etc.

d) Self-Esteem Needs are needs for self-respect, self-confidence, competence, knowledge and autonomy.

e) Self Actualisation Needs are need for optimal development of potential abilities, knowledge and skills, need to be creative and achieve self-fulfilment.

Motivation is defined as "a reported urge or tension to move in a given direction to achieve a certain goal". A human being will be motivated only when his needs are satisfied.

5.5 BUYING MOTIVES

A marketing manager must understand the individual's buying motives. These motives may be expressed or unexpressed. A motive is defined as on inner urge that moves or prompts a person to action. The motives which induce an individual consumer to purchase something are known as the buying motives. "Buying motives", refer to the feelings, thoughts, emotions and instincts which arouse in the customer, a desire to purchase and possess something. Some of the buying motives are instinctive, while others are acquired, as a result of environment, education, culture social status, age, sex, capacity etc.

An ultimate consumer is one who buys goods for his own consumption and for his family's personal consumption. Such consumers buy goods for the satisfaction of their wants. They buy products for three reasons:

i) to satisfy their needs

ii) inner urge to purchase, and

iii) reasoning.

The forces, which are motivating an individual to buy, may be broadly classified into two. They are external forces and internal forces which include rational and emotional motivations.

a) External Forces:

External forces motivating the buying behaviour are nationality, religion, education, income, social status, geographical area of residence culture of the society in which the consumer lives, social class to which he belongs, his friends, and his family. The culture of the society in which man lives and exerts a great control over his attitudes and actions (Discussed already).

b) Internal Forces:

The internal forces are those that have an origin in the mind of the people. These forces may be both physical and psychological nature. Internal forces, motivating the buying behaviour may be classified into two groups.

1) Rational motivations and

2) Irrational or emotional motivations.

According to .Prof Copeland rational motives include dependability in quality, durability, happiness, healthfulness, efficiency in operation and use, economy in use enhancement of earnings and productivity of property. According to him irrational motives include pride and ambition, emulation social achievements, proficiency expression of artistic taste, romantic instinct, Securing personal comfort security from danger and obtaining greater leisure distinctiveness) desire for recreation and entertainment, economic emulation cleanliness, and the like.

The following are some of the important buying motives:

5.5.1 Comfort and Convenience

The comfort and convenience motive is an important factor in purchasing luxury articles, labour saving devices and innumerable convenience at home) at work and in recreation. Everyone likes comfort and convenience. Human beings always would like to do things in 'easy way' and in 'comfort'. This motive is therefore an important motive for selling labour saving and luxury articles such as gas cylinders, gas stoves, pressure cookers, washing machineries, vaccum cleaners, air conditioners, fans, furniture and so on.

5.5.2 Fear and Safety

The most basic instinct of a human being is self preservation a person would do anything to preserve himself or to guarantee his safety. Generally, People are fearless of their life, health, friends, jobs, reputation and comfort. As people grow older, their fear becomes greater. On this motive people go behind the purchase of houses investments medicines and drugs, tonics and many other' such items. Even, life is insured with insurance companies. Thus fear can sell almost anything.

5.5.3 Pride and Vanity

Every individual likes to feel important in the society among friends, clubs and to achieve status symbols. This motive (pride and vanity) is an important factor for people purchasing costly articles. For all this women purchase costly costumes, Jewellery and men purchase television, refrigerators, costly furniture, scooters etc.

5.5.4 Love and Affection

This motive is rather unselfish. Many people can be motivated by appealing to their sense of duty or love for the family or their desire to serve humanity. This motive plays an important* role when a person purchases good to satisfy others e.g. father purchasing goods for his son and the family, a young husband purchasing labour saving devices and many other articles for his wife etc.

5.5.5 Sex and Romance

This motive occurs in both the' young and the old. Everyone realises the potency of love. Sex is an important motive in the sale of articles such as cosmetics and fancy clothes. Women, spend more money on clothes and cosmetics to appeal to men. In the same way men dress their best so that they may appeal to women. This motive 'sex', can

thus sell almost anything from lipstick to motor car. Thus sex, is very often used by marketers as a motive to sell goods.

5.5.6 Gain and Economy Motive

Some people desire to earn money and others to save money. Making a profit or saving money is a universal desire. This desire induces people to go around the shops to purchase goods at lower prices and have monetary gain. Every consumer desires his money's worth. A housewife would like to go around shops and try to buy her needs cheaply such as grocery or dress material because they desire to save money.

5.6 BUYER DECISION MAKING PROCESS

The buying process for consumer goods is viewed in three angles here (1) in terms of classification of goods into convenience, shopping and specialty goods (2) in terms of impulse and planned buying and (3) in terms of users, influences deciders and purchasers within the family or household.

5.6.1 Convenience, Shopping and Speciality Goods

Many writers on marketing have classified consumer goods into three broad groups - convenience, shopping and speciality goods. This classification is basso upon generalizations in regard to the buying habits for these goods. Definitions: Committee of the American Marketing Association has defined convenience goods" shopping goods and speciality goods as follows -". Convenience goods are those which the customer usually desires to purchase frequently, immediately, and with a minimum of effort. Shopping goods are those" which the customer in process of selection and purchases characteristically compares on such bases as suitability, quality, price and style" and speciality goods are those" which a typical buyer characteristically insists upon and for which he is willing to make a special purchasing effort".

Convenience goods are those goods which the consumer may purchase on impulse or he may plan in advance regarding purchases. Consumers purchase such goods with minimum effort on their part. Convenience goods include staple foods, such as bread, butter and canned goods, groceries, cigarettes, tooth paste, toilet soaps, soft drinks, shaving accessories and so on. Hence, such goods must be really available in the shopping area. This implies that a manufacturer or wholesaler must have a wide distribution system.

A consumer who purchases shopping goods considers their quality, price, style in several shopping centres before he makes the actual purchase. The consumer does not have full knowledge of such goods. Shopping goods include many items of apparel such as women's dresses, jewellery, home furniture etc. They are purchased less frequently by the consumers. Hence, large scales publicity is not needed. The interest and support of the retailer is rather a pre-requisite for marketing the shopping goods.

Speciality goods are those goods which have unique characteristics, for which a group of buyers are habitually willing to make a special purchasing effort. Expensive items

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Check Your Progress

I Fill in the Blanks:

1. 'AIOD' means ———

2. Age and Income are ——— factors influencing consumer behaviour.

3. ——— refers to the people with whom the customer can interact directly or indirectly to take their opinions and beliefs.

4. ——— needs influence needs for self-respect, self-confidence, competence, knowledge and autonomy.

5. The behaviour of the consumer at the time of ——— is known as consumer behaviour.

such as wrist watches, automobiles, fancy items, groceries, health products, perfume, men's readymade garments and certain other home appliances are regarded as speciality goods. Speciality goods call for high price, some advertising and fewer outlets.

5.6.2 Impulse and planned Buying:

Consumer purchases may be planned or made on the spur of the moment. For instance, purchase of an automobile for most of the buyers, is usually a planned purchase. But, the purchase of soft drink may be planned or made on impulse that is we may go to the store with the aim of purchasing double seven or we may sometimes buy it just because we happen to be where it is available. In some other cases, purchase may be planned in advance, but the timing of actual purchase may be decided on the impulse of the moment. Impulse buying is common among ultimate consumers and is relatively rare among industrial users.

Impulse buying, a characteristic of much consumer buying has grown in U.S.A. with the development of the self-service retail store, where some products are purchased on impulse the purchase of other products is planned. The degree of, planning may vary among consumers. Several research investigations on planning by consumers reveal this truth. Other conclusions of the study were 1. Purchase of more expensive items involves more planning 2. Durable goods purchases amounting to Rs. 25 or more were planned at least a month in advance.

5.6.3 Users, influences, Deciders and Purchasers

In consumer buying often a number of people-users, 'influencers, deciders and purchaser are involved in the buying process. For instance, a car may be used by the members of a family. Even though the purchases may be made by the husband, other family members will all exert some influence and in some situations Wife will be the decider. Another example may also be cited. Cereals for dog to be purchased may have been decided by a 10 year old boy influenced by his younger sister. But their mother actually makes the purchase. There are often a number of people involved in consumer goods purchase. A number of studies and research conducted in U.S.A on panel of consumers reveals that with increasing are and length of marriage a division of responsibility tends to develop buying plans and wishes of a spouse are generally, known, so that husbands and wives are equally good respondents with regard to the other. Other research reports support the view that the wife's influence is greater in the socio-economic class and that shared decisions are less in these classes:

Marketers in addition to understanding why consumers buy they must also know, when, where and how the consumer buys in other words, manufacturers and middlemen must understand the consumer buying habits.

a) When Consumers Buy?

A marketing manager should be able to answer when people buy his product or service. During what season do they buy? If seasonal buying pattern exists for his products

then he may change his product or his promotional programme to smooth out seasonal fluctuations. This factor- when people buy - may influence the product planning, pricing or promotional phases of a firm's marketing schedule. Gift articles are distinctively packaged at Deepavali time, Christmas time because they are purchased for gifts in order to smoothen the seasonal fluctuations in production schedule, a dolt manufacturer may want retailers to buy well in advance of the 'Dasara season' the season when majority of the dolls are sold in India.

b) Where Consumers Buy?

A marketing manager should consider two factors regarding where people buy - where the buying decision is taken and where actual purchase is made. For some products the decision to buy is made at home and for some other products, the decision is often made at the point of purchase. A father may decide at home to buy a birthday gift for his son, but he waits until he reaches the stores before deciding whether it will be wrist watch, parker Pen or gold ring.

A company's product planning and policies should give more importance to where the buying decision is made. If the decision to buy is made at the point of purchase then more attention must be devoted to packaging and display materials. A consumer may decide at home to buy a pen, but the key decision regarding which brand and which type may be decided at the store. So marketers must see that the consumer in his house is educated about their products by advertisement. Otherwise unknown brands, their attractive package, may influence the consumer at the point of purchase.

c) How Consumers Buy?

Consumers buying habits affect product planning, pricing policies, promotional and management decisions. If consumers prefer to buy already packed goods, manufactures and middlemen should be aware of consumer preferences with respect to quantity. Some people always buy on cash basis, where as others prefer to buy on credit. When there is considerable demand for and credit purchase, a firm may make arrangement to sell goods on credit.

> **Check Your Progress**
> **State whether the following statements are true or false:**
> 6. Emotional motives are external motives.
> 7. Perception is a part of personal factors.
> 8. Consumer behaviour covers the study of the activities of final users.
> 9. The person of the family who senses the need for the purchase is known as initiator.
> 10. Social status is one of the psychological factors influencing consumer behaviour.

5.7 KEY TERMS

- **Buyer**

  Buyer is a person who buys a product.

- **Consumer**

  Consumer is a person who uses the product

- **Buyer Behaviour**

  It is the behaviour of the buyer at the time of purchasing.

Buyer behaviour

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- **Buying Motives**

  All the impulses, desires and considerations of the buyers which induce a buyer to purchase a given product.

5.8 SUMMARY

Buyer behaviour has been analysed by examining various theories derived from economics and other behavioural sciences. In classical economic theory, financial self interest explains buyer behaviour: "economic man" acts rationally to maximise his financial well being. Unfortunately, this economic explanation is not helpful to businessmen whose customers meet them daily with irrational behaviour. Businessmen next turned to psychology, in search for a clear explanation of buyer behaviour. Psychological explanations of human motivation helped, but businessmen were not fully satisfied with these explanations. Then, they turned to sociology and anthropology for further explanations on buyer behaviour. Now, it is recognised that individual's social creatures are strongly influenced in their buying by the social and cultural environments in which they live. Thus, each of the behavioural sciences - economics, psychology, has helped to know the buyer behaviour. Yet the human behaviour in general and the buyer behaviour in particular are too complex to reckon with. At present no general theory of buyer behaviour has received wide spread acceptance among practical marketers.

5.9 ANSWERS TO CHECK YOUR PROGRESS

1. Activity, Interest, Opinion, Demographics
2. Personal
3. Reference Group
4. Self Esteem
5. Purchasing
6. False
7. True
8. True
9. True
10. False

5.10 QUESTIONS/EXERCISES

Section A

1. What is Buyer Behaviour? Describe the need for studying buyer behaviour.
2. Discuss the significance of studying Buying Motives?
3. Write Short Notes on:

a) Social Needs

b) Self Esteem Needs

Section B

1. Discuss the major determinants of buyer behaviour.
2. Describe the buyer decision making process in detail.
3. Explain the various buying motives.

5.11 FURTHER READINGS

1. Philip Kotler, et al (2009), "**Marketing Management**", Prentice Hall, New Delhi.

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UNIT 6 PRODUCT PLANNING AND DEVELOPMENT

Structure

6.0 Introduction
6.1 Unit Objectives
6.2 Product and Product Mix
6.3 Classification of Products
6.4 Product Policies and Strategies
6.5 Product Planning
6.6 New Product Development
6.7 Product Life Cycle
6.8 Branding
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6.10 Key Terms
6.11 Summary
6.12 Answers to Check Your Progress
6.13 Questions/Exercises
6.14 Further Readings

6.0 INTRODUCTION

Product is the starting point of all marketing activities. The product or service is the heart of the marketing mix. In a very narrow sense, a product is simply a set of tangible physical and chemical attributes assembled in an identifiable form. Without a product there is no chance to satisfy the customer's need because without product there will be nothing to distribute, nothing to promote and nothing to price. Product mix is an integral part of marketing mix. Every product passes through five stages until it becomes obsolete. Suitable product and strategy should be formulated at each stage of the product life cycle. The present unit deals with policies, planning and strategies with regard to product, branding and packaging.

6.1 UNIT OBJECTIVES

- To understand the concept of product mix and products classification
- To discuss the product policies and strategies
- To explain the various stages of new product development
- To examine the various stage of product life cycle
- To appreciate the significance of branding and packaging

6.2 PRODUCT AND PRODUCT MIX

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"A product" is defined by most modern marketers as, "the sum of the physical, psychological satisfactions the buyer receives when he makes a purchase." According to Schwartz, "a product is something a firm markets that will satisfy a personal want or fill a business or commercial needs and include all the peripheral factors that may contribute to customer's satisfaction". These peripheral factors are goodwill of the firm or manufacturer, the warranty, credit and delivery terms, branding and packaging and after sale service.

W. Alderson defines, "a product is a bundle of utilities consisting of various product features and accompanying services." The bundle of utilities consists of these physical and psychological satisfactions that the buyer receives when he buys the product, which the seller provides by selling a particular combination of product features and associated services. A product is like an onion, which has several skins or layers, each of which contributes to the total product image. These important layers are core product, augmented product and symbolic product. For example, when a buyer buys a TV from a reputed firm means he buys not only for the product but also for the other facilitating factors like brand, standard, and service facilities after sales.

Product Mix is the composite of products offered for sale by a firm. Product mix is considered as an integral part of marketing mix, i.e., right product, right promotion, right price, and right place or distribution. It must be considered as a part of overall marketing planning so that resources are better utilized, all costs are pruned, existing products are improved, obsolete products are dropped, competitor's policies and industry trend are taken care of and the marketing strategy is reviewed to ensure that the company's resources match with the environmental changes. A product item Usha Fans are in different shapes and sizes is the example of product line. But fans, sewing machine and other items of the same company are the product mix of the company. But the ultimate decision of the product mix depends on

- Product Width
- Product Depth
- Product Consistency

6.2.1 Product Width

The width of the product mix refers to different products which are offered to the public by a firm. The greater the number of different classes of products, the greater the product line width. Nowadays, the companies offering a variety of products are increasing. The companies which confine themselves to few products have now started diversifying its products.

6.2.2 Product Depth

The term depth of a product mix refers to the average number of articles offered within each category of products or product line. The greater the number of brands in any

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product class, the greater the product line depth. For example, Brook Bond India offers a variety of tea. Before some years, it deepened its product line by offering coffee and instant coffee.

6.2.3 Product Consistency

The consistency of a product mix refers to the relationship of the various product lines to production requirements, distribution channels, end user, etc. Product consistency means the same skill or processes required by the company in the manufacture or distribution channels of each product line. Many of the companies maintain product consistency even when they add new products to their product line. For example, Coca Cola has kept consistency of a product mix with other acquisitions. But now in the changed scenario, it becomes fashion for every company to diversify its products widely while they ignore the consistency with the existing production and marketing in search for new acquisitions. For example, Tata Group has diversified into a number of fields like manufacture of salt, tea and even vegetable oil.

6.2.4 Factors influencing changes in product mix

At times, a marketing executive has to adjust his product mix in order to be successful in the field of marketing. The need for continuous review of product mix arises due to change in the external environment such as technology, consumer perception, competition, population and economic structure. The survival of the company depends on how well this review task is undertaken and new products are adopted. Factors like changes in market demand, buying power, consumer behaviour etc., will have greater influence on the product mix of a firm. So, we have to see how under the above circumstances, product line is adjusted to make it as a good product line strategy.

a. Changes in market demand

A major change in the distribution of population may influence a firm to effect a change in its product mix. Increase in population may naturally influence the addition of products, but on the other hand, if there is a decline in birth rates a company particularly engaged in the production of baby food, may add a line of other baby products like bibs, crib sheets, socks water -proof plants etc. Similarly, when there happens to be a movement of plants from one place to another or formation of new factories in other centres will result in the mobility of customers. These will influence a change to be effected in the product mix.

b. Buying Power

Increase in purchasing power will naturally have an influence on the product mix of a firm. Besides the addition of products, several leading firms use to raise the quality of their products. In the past two decades, the purchasing power has increased considerably and the people have been able to afford better merchandise and this result in a decline in the market of low priced products.

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c. Consumer behaviour

The consumer motives, attitudes, preferences, buying habits etc., influence to a great extent the expansion or contraction of product mix. In certain situations, the firm will add products in order to satisfy the ultimate consumer or industrial users who wish to have a complete line. Sometimes, middlemen prefer a complete line, so that it will help them in their promotional activities. The more the products are added, the greater will be the number of wholesalers coming forward to work under such firms.

d. Planned obsolescence

Planned obsolescence is another way of pulling out a product from the market in order to increase the replacement market. No doubt, every manufacturer is interested in introducing new products, but such changes cannot be radical as people want newness only in a gentle manner which parallels with their habitual patterns. The planned obsolescence can take place in the following forms: (a) On account of technological advancement in certain line of product the existing product may become obsolete. For example the innovation of power steering and automatic transmissions in an automobile; makes earlier models of automobiles an obsolete. (b) Sometimes technological improvements will not be introduced, rather postponed intentionally as the market for the present product would not have decreased. (c) It is also another device of planned' obsolescence thereby the product is designed to wear out physically within a reasonable short period of time. Here, the manufacturer should be cautious as sometimes it may lose its reputation or goodwill on account of shoddy merchandise. (d) As another technique of planned obsolescence, some super physical characteristics of the, product are altered so that the new model can, not only be easily differentiated but also makes one to feel out of date it he possess an old model of that product.

e. Miscellaneous

(a) To tap the new markets, to expand the existing market adding of products may take place in a firm.

(b) Sometimes, to better utilise the warehouses or the sales force, products may be added for the" existing product line.

(c) A manufacturer may diversify his product-lines so as to free himself somewhat from an acute competition position.

(d) By changing its product-mix, a firm diversifies its financial risks. Adding more products help a firm to spread over risks among several product. Product diversification also acts as a cushion.

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6.3 CLASSIFICATION OF PRODUCTS

Products are broadly classified as consumer goods and industrial goods.

- Consumer goods are destined for final consumption by ultimate consumers. Examples are cigarettes fruits, ice cream, soft drinks etc.
- Industrial goods are destined for the use of commercial production of other goods or for use in connection with carrying on some business activity. Example: electronic office equipment, electronic generators, specialised machine tools etc.

6.3.1 Consumer Goods

Consumer goods are those which are used by ultimate consumers or households without further commercial processing. Consumer goods are meant for personal and non-business use, Example, Televising, Car, Scooter, Washing Machine, Toothpaste, Soap, Watches, Shoes, etc. The variety of consumer goods is almost endless. However consumer products are broadly classified into three. They are i) Convenience goods, (ii) Shopping goods and (iii) Specialty goods.

a) Convenience Goods

The significant characteristics of convenience goods are that a consumer buyer frequently, immediately and with minimum effort. The consumer is willing to accept any other the several substitutes and thus he will buy the one which is most accessible. Cigarettes, Chewing gum, magazines, drugs and groceries are examples of convenience goods. Since these goods are all non-durables, consumers buy them frequently and normally. Consequently, this type of product must be readily, accessible in any shopping area. Convenience goods typically have a low unit price, are not bulky and are not affected great by fashion. Among the well-known brands, one is not usually strongly preferred over another. Convenience goods are purchased frequently, although this is not differentiating characteristic.

b) Shopping Goods

Shopping goods are products for which a customer usually wishes to compare quality, price, and style in several stores before purchasing. Shopping goods are bought rather infrequently and used up very slowly. Examples of shopping goods include furniture. Jewels, piece goods, readymade garments etc. In general, shopping goods are larger in unit value and purchased less frequently than convenience good. Shopping goods are homogeneous as well as heterogeneous in nature. Homogeneous shopping goods are children readymade garments for which the consumer views essentially the same. The price is an important factor for purchase of homogeneous goods while quality and styling are the relatively more important factors for purchasing the heterogeneous goods like furniture.

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c) Speciality Goods

Speciality goods have been defined as those with "unique characteristics and or brand identification for which a significant group of buyers are habitually willing to make a special purchasing effort" - American Marketing Association.

The distinctive feature of specialty goods is that the buyer will accept only one brand. Generally, only certain brands of these products fall into specialty goods classification. Examples of speciality goods are fancy goods, health products, photographic equipment and certain home appliances, etc.,

6.3.2 Industrial Goods

Industrial goods are those products which are used primarily by the buyer as inputs which may be further used for manufacturing other products and for further commercial processing or for rendering more service. Industrial goods are meant for non-personal and business use. The examples of industrial goods are machine tools, computers, components and raw materials, trucks, etc. Same goods will be both consumer as well as industrial goods depending upon the purchase situation. For example, oranges are consumer goods when bought as a fruit for direct consumption by the consumer. But it becomes industrial goods when bought for extracting juice.

There are four major categories of industrial goods.

(1) Production facilities and equipments;

(2) Production Materials

(3) Production supplies; and

(4) Management materials.

6.3.2.1 Production Facilities and Equipments

It consists of three divisions, viz., installations, minor equipment and plants and buildings.

a) Installation

Installations are manufactured industrial products - the investment of a comparatively large sum, the long lived major equipment of an industrial user. Example is factory-building, diesel engines for railways etc. The differentiating characteristic of installations is that they set the scale of operation in a firm.

Marketing of installations presents a real challenge to management because every single sale is important. Usually no middlemen are involved; but the sale is large. There may be a long negotiation period before the transaction is consumed and promotional emphasis on personal selling rather than other means of promotional mix.

b) Minor or Accessory Equipment

Minor or accessory equipment includes industrial goods, which are used in producing the industrial user's product or service; but which do not become an actual part of the finished product or major capital assets. The life of accessory equipment is shorter than

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that of installations and longer than of operation supplies. Examples are office equipment, small power tools, etc.

Accessory equipments are not generally made to specification, so the products of a given manufacturer are not standardised. Purchasing procedure for minor equipment is quite routine and simple. Manufacturers of accessory equipment use middlemen; because the market is geographically dispersed and individual orders may be relatively small.

c) Plants are Buildings

Plants and buildings are essential to operations of an industrial user's business and represent sizable capital investments Plants and buildings are usually not marketed as complete units though there are some construction engineering firms that specialise is such projects.

The demand for plant and building depends upon the industrial users. Hence the demand for this capital value is derived rather than created. Demand is inelastic because it is the derived demand.

6.3.2.2 Production Materials

It consists of three sub categories, viz., raw materials, semi manufactured goods and fabricating parts.

a) Raw Materials

Raw materials are industrial goods, which will become a part of another physical product. Handling and processing of raw material also depend upon the nature and use of product. Raw materials are divided into two. They are; (i) goods found in the natural state like minerals, forest products and the sea products; and (ii) agricultural products such as wheat, tobacco, fruits etc.

'The supply of these products is limited and cannot be substantially increased; hence it must be graded carefully. Transportation is an important consideration because of bulk and long, distance between producer and user. Many middlemen and long channels of distribution are needed.

b) Semi-manufactured goods

Semi-manufactured goods are industrial goods, which become an actual part of the finished product. These are items, such as steel, timber and glass which are the end products of one industry and the basic manufacturing materials of another..

The prices of semi-manufactured goods are stable. Middlemen are used most often to ensure an adequate and timely supply.

c) Fabricating parts and materials

Fabricating parts are those industrial goods, which have gone through complete manufacturing process, but reach the ultimate users after they are assembled with other products. Examples are spark plugs, automobile parts, a part of finished printed cloth, and the buttons on a dress.

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Fabricating materials and parts are usually purchased in large quantities. Middlemen are used often and buying decisions are based on price and services provided by the seller. Branding is generally unimportant.

6.3.2.3 Production Supplies

Production supplies are the materials, which are consumed in the operation of a business and which do not enter into finished product. Production supplies are products, which do not become part of finished products. Examples are fuel, oil, coal etc. In case of production supplies long-term purchase contracts are directly negotiated by top ranking executives of both buying and selling companies.

6.3.2.4 Management materials

Management materials consist of both office equipment and office supplies. Prices of office equipment of very high value are usually leased rather than bought. Out right purchase of major office equipment items involves substantial sums of money, hence decision requires the approval of both top management and the department concerned. Today, industrial suppliers and users are expanding teasing arrangements to include machine tools, storage bins, and other items generally less expensive than big installations.

6.4 PRODUCT POLICIES AND STRATEGIES

In modern business, we find many firms either introduce new products to replace its existing products, or improve the existing products or sometimes drop out or eliminate the existing products. For instance, a producer of industrial materials, handling and construction equipments may introduce hydraulic pumps, motors and values to its existing product line. In another instance, a producer either eliminates an entire line or simplifies the assortment in the existing line. In a third instance, some leading stores regularly shop for the latest fashion creation and third adopt these to the mass market. All these activities show or reveal that they are nothing but managerial strategies and policies with respect to the firm's line of products and services.

A product line generally refers to a group of products having reasonably similar physical characteristics and similar uses. For example, wearing apparel is one kind of a product line. But this may differ according to the nature of business. For instance, in a small specialty shop, men's furnishing say shirts; underwear's etc and men's ready-to-wear items like suits, slacks etc., would each constitute a line. Likewise, there may be separate product lines for furniture, jewelery, sporting goods, drugs etc. Therefore product line generally refers to products having similar uses and physical characteristic features.

The term product mix refers to the full list of all products offered for sale by firm or company. A study or scrutiny of the structure of the product mix will reveal the dimensions of both breadth and depth. Its breadth is measured or considered by the number of products offered by the firm for sale and its dept- is determined by the assortment of sizes, colours, brands, models, etc., offered within each product line.

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In marketing their products, manufacturers and middlemen used to employ several product-line strategies. This includes expansion of product mix, contraction of product mix, alteration of existing products, development of new uses for exist products, positioning the product, trading up and trading down, etc. Let us analyse them individually.

6.4.1 Expansion of product mix

A firm may decide to expand its present product mix either by increasing the number of lines or by increasing the depth within a line. The introduction of new lines may be related to the present products. However, a firm will give several sound reasons for the additions of product to its line as follows:

(1) Maximum utilisation of available resources only will ensure a lower average cost of production. So, in order to better utilise its resources adding of a product to its line may take place. But for this the firm would have missed its profit opportunities and wasted its assets.

(2) When the plant and equipment are not utilised to their full capacity, the burden that falls on the present output in the form of overhead charges will be larger than is justifiable. Increasing the output of the present product too may not be possible; when there is a lack of sufficient demand for it. Therefore a company which aims at achieving an efficient operation may influence the introduction of new item to its line. This addition of product will not only add profit to the company but also place the firm in a better competitive position in the market, as it will lessen the overhead charges of the-present product. Thus it results in adding of new item to its line.

(3) At times, just like plants and equipments man power would not have been utilised fully by the firms in its manufacturing operations. This may stimulate the management to add new products, to eliminate the presence of idle personnel.

(4) Some times, a firm due to variety of reasons may reach a redundant capital position. The firm which is not in a position-to invest the same in the present operations generally invests in government securities which through highly market able will fetch only low-return. So to utilise such idle funds profitably, new venture must be found and this results in adding of new products, to its line.

(5) Once a firm has earned the goodwill of the consumers then for capitalising it, the firm may introduce a wide line of related product. This is on account of the fact that its brand name is received among the consumers so readily that the introduction of new products is relatively easy.

(6) Another attraction for the introduction or addition of products to the existing product lines is the presence of established channels of distribution. No double, these channels cost money to establish and maintain. Assuming a plant is burning down, but the owner will still be able to get someone to make his products for him, if he has channels of distribution for getting them to the market. So, their presence induces a firm to add products to the existing product-line.

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(7) On the market side-middlemen prefer to have a manufacture offering a complete or full line of products. With this system the middlemen by promoting just one brand name can sell an entire line of goods. Besides, addition of associate products to a line usually also strengthens the buyers, image of the company or firm.

On the other hand some firms used to concentrate on one relatively narrow line and thereby, they become highly successful in its product development. By doing so, they earn reputation so much as to consider them as experts in that industry.

(8) Under the market strategy, some retailers like to sell new products as often as possible, so that it provides them more promotional opportunities instead of selling the same old merchandise year after year.

(9) Another important factor which influences the addition of a new product to the existing product line under market strategy is that the promotion costs of the new products can be lowered. This is due to the fact that the same salesman can be asked to sell the product and the new item can be included in the same advertisement of the existing line. Even the brochures on it too can be sent in the same envelope of the regular letters. As a result of all these, the marginal promotional expense of a new product will be less and profits opportunities will be more.

(10) A basic desire of many firms will be to expand their business, earn more profit and to achieve a better position in the total market. For this reason also, many firms try to introduce or add many products to the existing products.

(11) Another reason that accounts for the addition of a new product is that it (firm) will utilise material now going to waste and will produce a product. For example, the saw mill owners produce new item with the huge piles of saw dust. The manufacturers of vanaspathi, while producing hydrogen for its manufacturing operation get oxygen. In turn, he may introduce oxygen supply as an additional item to item product line.

(12) On account of various environment reasons, an existing product may lose its demand sooner or later. Nothing lasts for ever. This forces the executives to introduce new products in order to offset the obsolescence of their existing products. New products are therefore necessary just to maintain one's place in an industry.

Thus, a company may expand in both breadth and depth by the addition of product due to variety of reasons.

6.4.2 Contraction of Product Mix

Contraction of product mix refers to, either elimination of an entire product line or simplifying the assortment within a line. This may take place in a firm for various reasons such as lines designed to eliminate low-profit products and to get more profit from fewer products or due to raw-materials scarcities, price controls and the energy shortage. Sometimes, even when a product is profitable it may be dropped simply because it does not fit in the organisation. At other times, a product may not have reached the point of

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unprofitably; but still on account of its obsolescence. It would have been dropped by the firm.

6.4.3 Alteration of existing Products

As a product strategy, many firms try to improve the established product instead of developing a new product. That is making some alteration of the existing product. This alternative strategy is followed regardless of the breadth and depth of the product mix. At times the redesigning of product not only increases the profit; but also performs better. A redesigning of a product may take place in different forms such as change in its design, alteration in the package, in its colour, size, and quantum or a change in the advertising appearance, etc.

6.4.4 Development of new uses for existing products

Another product strategy is to bring out new uses for products. Though, it does not sound well as a product strategy still it cannot be under-estimated. In fact, a manufacturer of soap used to offer a weekly prize to the consumer up with the best new use for the product.

6.4.5 Positioning the product

A product's position is the image which that product projects or holds in relation to images projected by other competitive products or in relation to its own other products. So it is the management's responsibility to position the product appropriately in the market in order to achieve its marketing goals. Only when a product is super or supreme in all respects, it occupies number one position. if not placed in a position which it deserves comparing to other products. Sometimes, this is achieve a by moving into a previously unoccupied position in the market.

6.4.6 Trading up and trading down

There are other product strategies employed by firms to reposition their products. This act involves an expansion of product line. Generally a firm will trade up or trade down; and not both. In case of trade up, a manufacturer adds a higher priced prestige product to his line with the hope of increasing the sates of his existing low priced product. This act will provide the manufacturer with two things: (1) The seller continues to have bulk .of the sales volume from his lower priced product. (2) The seller may shift his promotional activities towards the new product so as to protect the major share of volume and thereby drop the low-pitched line after transition period.

In case of trading down, a manufacturer adds a lower priced product to its existing product line with the hope that people who cannot afford to buy the original product may buy the new one as it possesses some of the status of the other products of the firm.

6.4.7 Product differentiation and market segmentation

These two known-concepts are also related product strategies which are employed by firms which aim at non-price competition in markets.

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Product differentiation, as one of the product strategies, aims at distinguishing the advertiser's product with that of the products of competitors. According to this strategy, the firm or the company will differentiate its product either in quality or sign of the product or in the brand or packaging etc, and thereby develop and promote an awareness of differences among the people. By doing so, the business t only avoids price competition; but also makes its product different from and better than competitive models. Sometimes, two products may be identical in physical and chemical sense. Even the use of products may be same. Still a difference is introduced (say in packaging) just to identify the product with that of others.

As product strategies, market segmentation is a technique, which aims at recognizing the wants, motives and other characteristics of customers and then producing the products which parallels the wants of each homogeneous unit. Thus market segmentation attempts to study and supply the requirements of customers of a limited market in depth so that they are retained for its own products.

Generally, firms employ first, the strategy of market segmentation but later, when there happens to be severe competition, this strategy will merge with product differentiation. Thus any market segmentation is dynamic and a temporary phenomenon and the competitive conditions will force a seller to find out new ways of segmenting the total heterogeneous market, in order to retain its position (share) in the total market.

6.5 PRODUCT PLANNINGAND DEVELOPMENT STRATEGY

Most strategies and tactics in marketing revolve around the product because it is the basic tool with which the marketing manager bargains for revenue. The product is the starling point for planning activities. The other marketing tools viz., price structure; distribution system and promotional activities are used to help to get the product into the consumer hands. It is impossible to price, plan promotions or choose channels of distribution without product planning.

Sound product policies also facilitate the effectiveness of all other marketing tools. A policy is a guide to decisions whereas plans are the road maps used with a view to carrying out the policies effectively. The first and foremost area or the marketing manager's attention is the product or service he wishes to distribute.-If he makes wise decisions in this area, all other problems will be minimised. If he makes unwise product decisions, he faces with the other marketing problems. Hence, the marketing manager while determining the product policies should carefully consider all the elements of marketing mix. The job of product planning really starts at the attempt to construct a product which is in line with market needs in terms of the market segments. On the basis of marketing research information, the product design and production decisions should be taken,. It is also essential to plan the functional appearance and style attributes of the product. Besides, policy decisions have to be taken in the area of packaging, branding, use of trade mark, product testing and product diversification.

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Product planning embraces all activities, which enable producer and middlemen to determine what should constitute a company's line of products. Ideally, product planning will ensure that the full complement of a firm's products is designed to strengthen the company's profit position. Product planning may be defined as "the act of making out and supervising the search, screening; development and commercialisation of new products; the modification of existing lines and the discontinuance of marginal or unprofitable items." Thus product planning involves three important considerations, viz., (1) the development and introduction of new products. (2) the modification of existing lines as per the changing, habits of the customers and (3) the discontinuance of marginal or unprofitable products.

The scope of product planning and product development activities includes decision making in the following areas:

1. Which products should the firm make and which should it buy?
2. Should the company expand or simplify its line?
3. What new uses are there for each item?
4. What brand, package and label should be used for each product?
5. How should the product be styled and designed and in what sizes, colours and materials should it be produced?
6. In what quantities each item is produced? And
7. How should the product be priced?

6.5.1 Product Innovation

Product innovation is receiving increasing emphasis and attention to-day in most of the countries. The underlying reason is that markets are changing for products. Markets are dynamic. A product or service which was profitable yesterday may not be so tomorrow or at some future time. Moreover, successful new products may bring higher profit margins than mature or obsolete products. Hence management places more emphasis on product innovation. In modern times the watchword for management has been "innovate or die". In his book on "The Practice of management", Peter F. Drucker recognized the importance of two terms - marketing and innovation.

Most of the companies in United States of America face the inevitable choice of product innovation or gradual fading from the market. For example, introduction of automobiles replaced the market for horse-wagons. Yet, Studebacker, a wagon manufacturer recognised the change in the market and shifted to automobile manufacturing.

Reasons for product Innovations:

a) Changes in Market

The most important factor for product innovation is the changes in market. The market is dynamic and therefore existing products and product lines are inadequate to meet the needs of the buyers. In the past, most competing products were alike and practically all markets offered alike products. But, today, markets are segmented into

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various submarkets, each with unique sets of needs and preferences. This decreases the probability of that anyone product 'can satisfy everybody. Hence, today marketers are taking efforts to reach specific market segments by offering products with distinctive features desired by these segments. Modern buyers buy products, produced to their own needs rather than to the total markets generalised needs. Moreover, changes in market are taking place constantly due to the development and growth of new media of communication and the changes in the fashion. Therefore, manufacturers' emphasis is on product innovation to avoid their products going out of markets and face competition.

b) Change in Technology

Changes in technology are another important factor for product innovation. This factor has widened the markets for old produets and at the same time brought into existence entirely new markets, through the creation of new products. For example, market for the existing products such as portable radios has extensively widened the market for entirely new products such as record-player and television has also become feasible. Industry, all over the world is spending huge amount in basic and applied research, so that product - innovation becomes a must.

c) Profitless price competition

Price competition forces many companies 10 emphasize product innovation. Under the existing competitive conditions a firm, if it does not produce, new products or make improvements in the existing products, cannot continue for a long time. Markets for mature and dying products are highly competitive. Therefore, to escape from profitless price competition, manufacturers search for product innovation.

d) Diversification of risk

Diversification, of risk is another reason for product innovation. Even most products become obsolete, with the passage of time. For example, the horse driven wagon was replaced by the scooters and cars. The greater the variety of products, produced by a firm, the smaller the relative impact of one's disappearance from the market. Hence, a company must engage in continuous product innovation to offset the losses occurring as older products go out of the market.

1. A company may develop new products to utilise the basic materials it is already making or to utilise scrap or waste from production.
2. A company may add new products to even out sales fluctuations resulting from seasonal or cyclical factors.
3. It may seek new products to counteract the highly erratic buying behavior of certain customers.
4. It may add new products to make more efficient use of marketing and production skills and to utilise marketing and production abilities more fully.

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Since the World War II, disposable income of the consumer has increased, and also an abundance of products have become available. This made consumers more selective in their choice of products. The market is being flooded by imitation products or products which offer only marginal competitive advantages. According to William J.Stanton, this situation may lead to "product indigestion." The cure for which is to develop really new products and to create really new markets.

6.5.2 Product Diversification

When a manufacturer or a distributor manufactures or distributes more than one product it is described as "product diversification." The following are the important reasons for product diversification:

1. to use more effectively the existing selling and distributive facilities:
2. to meet customer requests, particularly in case of industrial goods:
3. to take advantage of existing reputation:
4. to increase sale of existing products (e.g. the Gillette razor was introduced to increase the use to Gillette blades)
5. to meet the needs of distribution channels.

The ultimate goal of expanding a product line is to increase the profit. By offering different types of products, new dealers may be attracted. Besides, costs maybe reduced by spreading beneficially the overheads involved. This can also be used to level off production and eliminate seasonal fluctuations. If the added item use the same raw materials, the raw material cost may be decreased through securing of quantity discounts. Thus there are many benefits of product diversification.

6.5.3 Product Elimination

There are some products, which cannot be improved or modified to suit the market. Here, the profitable alternative would be to withdraw the product. The process of withdrawal is technically known as 'product elimination.' Continuation of sick products would affect a company's profitability. Besides, these products require a disproportionate amount of management's time and may even spoil the company's reputation if they are unsuitable to the consumer. A systematic approach is required for considering the question of elimination of marginal or unprofitable products.

There are certain indicators which suggest a careful analysis to determine whether or not to eliminate a particular product. The following are the reasons for product elimination:

1. reduction in product effectiveness;
2. emergence of superior substitute products;
3. use of disproportionate executive time.
4. declining sales trend;
5. decreasing price trend; and
6. downward profit trend.

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These indicators can help management to identify products which should be considered for deletion. An analysis may however result in a decision not to eliminate but may suggest further improvements in the products.

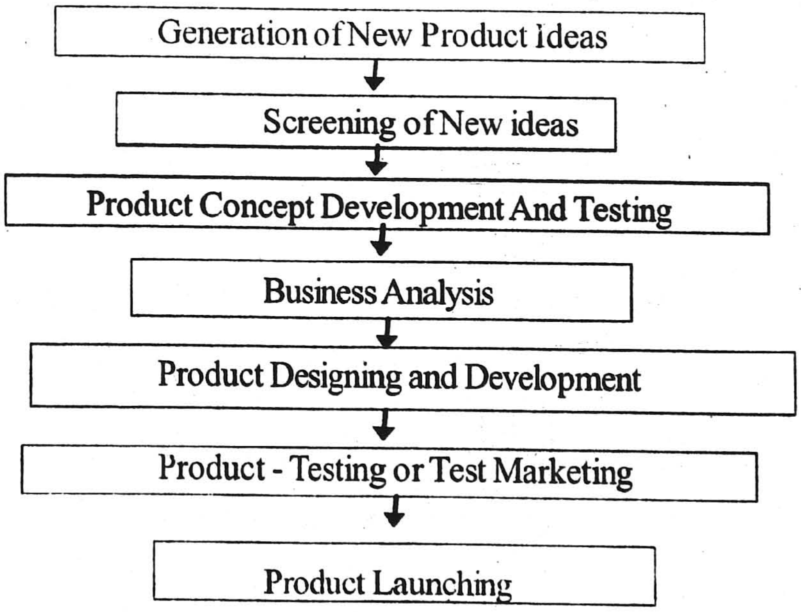
Now, let us consider these indicators in some detail. Over a period of time certain products lose their effectiveness. This particularly happens in case of pharmaceutical products: Where a substitute product emerges which is a considerable improvement on the old product, management must consider this seriously even through the substitute product has been introduced by a competitor. A study of the executive time devoted to various products in the product mix can high-light products which take excessive time which may be due to the product being sick. A declining sales trend over a reasonably lengthy time period would require a careful analysis of the product concerned. Similarly a decreasing price trend might indicate that obsolescence stage cannot be warded off much further. A downward profit trend is a powerful indicator.

Once the decision is taken to eliminate a product, the question of timing and provision of replacement parts deserve special importance. The facilities and manpower released through the deletion of the product should be timed so that they are utilised in other more profitable directions. In case of durable products, it may be necessary to maintain repair parts in stock to help the customer who has already purchased the product previously. Besides, there must be time provided for the distribution channels to clear out the stocks of the dying product.

6.6 NEW PRODUCT DEVELOPMENT

The development and distribution of new products are of great current interest among businessmen. Business firms are placing increasing reliance on new products for the achievement o/their profit objective. But most of the new products are marketing failures. Even among a group of well managed companies in America, the success rate for products which reached the market was still only two out of three. Hence a good programme for planning and developing new products is essential for the success of new products.

Fig.6.1 Stages in New Product Development Process



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6.6.1 Stages in Development of New Product

The new product planning process progresses from the idea stage to the production and marketing stage. Although there may seem to be no particular pattern, in general it includes the following six steps:

1. Exploration of new product ideas.

2: Evaluation of new product ideas.

3. Business analysis.

4. Development

5. Test marketing.

6. Commercialisation.

a) Sources of new product ideas:

This is the first stage, in the new product planning process. New product ideas originate from many sources. Most concerns rely solely on internal sources such as the company's engineers, its managers, its marketing department, or from its workers in the form of suggestion box ideas. Outside ideas can come from such sources as the company's wholesale distributors, retailers, customers, independent inventors and outside consultants. Sometimes, the marketing information system of the firm may also supply the new product ideas. There seems to be no one single source for good ideas. Each idea regardless of its source should be evaluated on its own merits, considering both market needs and opportunities and the company's capabilities.

b) Evaluation of new product ideas:

The first crucial stage of the new product development process is the screening of the new ideas. Numerous considerations enter into the evaluation of a new product idea. Apart from consideration of market potentials and profitability of the new product, the following factors must be also considered.

1) Existing production facilities.

2) Existing marketing organisation.

3) Availability of raw materials for the production of new product.

4) Possibility of using the existing plants.

5) Availability of finance.

6) Competition.

7) Image of the firm.

The basic step is to find out which of them warrant further study. All the departments of the concern devote full attention to evaluate the new product idea and decide whether the new product is to be produced or not. Evaluation stage involves a through investigation of the competitive market situation and company resources with respect to each idea. Thus evaluating or screening new product ideas is of great importance.

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c) Business analysis

Those ideas that are passed through the screening contain many unknown. The development group must now determine if the product can be made and sold profitably.

The idea is converted into a concrete business proposal in which the management should think about the following things:

1) What is the product's market potential?
2) What production problems and costs will be encountered?
3) How much capital will be required for introducing the product?
4) What distribution problems will be encountered?
5) How much investment in Research and Development will be necessary before the product can be marketed?
6) What protection from immediate competition will be available?

At this stage, the management must spend some money to get, some fairly accurate answers to these questions.

d) Product development

At this stage, the idea on paper is converted into physical product. The first phase of the development stag~ is to manufacture model products, in small quantities so that they can be taken to the market for use testing. Use testing is important, because products often perform differently in actual use than the do under laboratory conditions, where the operating variables can be closely controlled. Frequently a company must take several prototypes of the product for field testing, in order to uncover and rectify the technical bugs which creep into a product regardless of the capabilities of the designer. This stage can be time consuming and costly. Sometimes, before putting into a commercial production, a firm will have a product in the development stage for several years. Management must take care that at each stage throughout the new product planning programme, evaluation sessions are held, at which time the economic feasibility of the product is re-evaluated in the light of what has been learned to date.

e) Test marketing

Unto this stage, potential customers have been asked to react to one or more product features am' to comment on the advertising appeals. The reaction of potential customers can be tested by means of use testing. Test marketing is the stage, where commercial experiments in limited geographic areas are conducted in order to ascertain feasibility of the full marketing programme. The test marketing is more frequently used by consumer companies than industrial companies.

Test marketing may yield several benefits to the manufacturer. It may determine the potential success or failure of a new product prior to full-scale launching. During the test marketing, (1) the company may discover a product fault that escaped its attention in

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the product development stage. (2)The company may get information regarding distribution problems. (3) The company may also gain a richer understanding of the various segments of the market.

Even though, manufacturers may derive many benefits from test marketing, some manufacturers prefer to forgo test marketing because it is expensive and time consuming. While test marketing may give precise estimate of expected sales results of the full scale marketing, it cannot answer all questions of interest to the marketer of a new product. In conducting a test marketing planning, the execution of the test and the analysis and review of results are the most important phases.

At the conclusion of the test, results should be analyzed to determine the design of the product, price and packing before launching the product into market. At this stage the manufacturer can decide whether to discontinue the production or to proceed with a full-scale launching of the product.

f) Commercialisation

Once test marketing is completed, the management has to take a final decision regarding the commercialization of the product. If the test marketing results are favorable for the introduction of the new product, then full-scale production and marketing programmes should be planned. The firm must invest in new equipment and facilities to make large scale production possible. It must arrange for promotional programmes with its agency.

The product generally is introduced first in prime markets and regions and then at national level. If the test marketing results are very encouraging, the company may try to introduce the product on a full scale basis. In the development process, up to this stage, the management has complete control over the product. Once product is 'born' the external competitive environment becomes a major determinant of its destiny. When the company introduces its new product swiftly or gradually it needs to schedule its commercial introduction carefully.

6.6.2 Reasons for Product Failure

Many products fail to achieve their target of sales and profits. The main reasons for product failure are discussed below under six general headings.

a) Market Problems

This includes the neglect of market needs or ignorance of market preferences, inability to determine the buying motives and habits.

b) Product Problems

This includes defects in product function, poor quality, poor external appearance, defects in design and packaging undependable performance or a variation in quality.

c) Distribution problems

This includes inappropriate channels of distribution; failure to train marketing personnel for new products and new markets; failure to co-operate with middlemen; poor physical distribution of goods..

d) Promotional problems

This includes inadequate advertisement, use of wrong appeals, failure to cooperate with distribution system, inadequate training of sales force, lack of motivation and supervision.

e) Pricing Problems

This includes higher costs than anticipated. This led to higher prices, which in turn led to lower sales volume than anticipated.

f) Timing Problems

This includes poor timing of introduction. Usual mistake here was to introduce a product too late. In some cases, the problem was premature market entry.

From the analysis of the causes for failure of new products, we can conclude that achieving marketing success with a new product require high-order skills not only in product innovation but in formulating and implementing marketing strategy. Throughout the process of developing new products, management must keep one eye on the product being developed and the other on the target market. To introduce marketing mix (Product, distribution channels, promotion and price) must be combined effectively at each stage of the product development. By improving management's effectiveness in planning and implementing marketing programmes, the number of products that become marketing failures can be reduced. More specifically, by adopting the following course of action, failures of new products can be minimised.

1. Organisational changes aimed at strengthening new product planning.
2. Better marketing research to analyse the market needs.
3. To have more screening and evaluation of ideas and products.

6.7 PRODUCT LIFE CYCLE

All products, like peoples, have certain length of life during which they pass through different identifiable stages in different competitive environments. The success or failure of a product s life vary largely depends on how well it makes adjustments to these changing environments. The term Product Life Cycle (PLC) denotes the stages through which a product passes. Every product passes through certain stages until it becomes obsolete and is discarded. At each stage of its life cycle several market conditions are encountered and several strategies are employed by the management to overcome such situations. An efficient and effective marketing manager takes into account the length and character of each stage of his product's life cycle at the time of formulating product policy and strategy. To manage the life cycle of a product efficiently it is recognised that it passes through five stages introduction, growth, maturity, saturation and decline.

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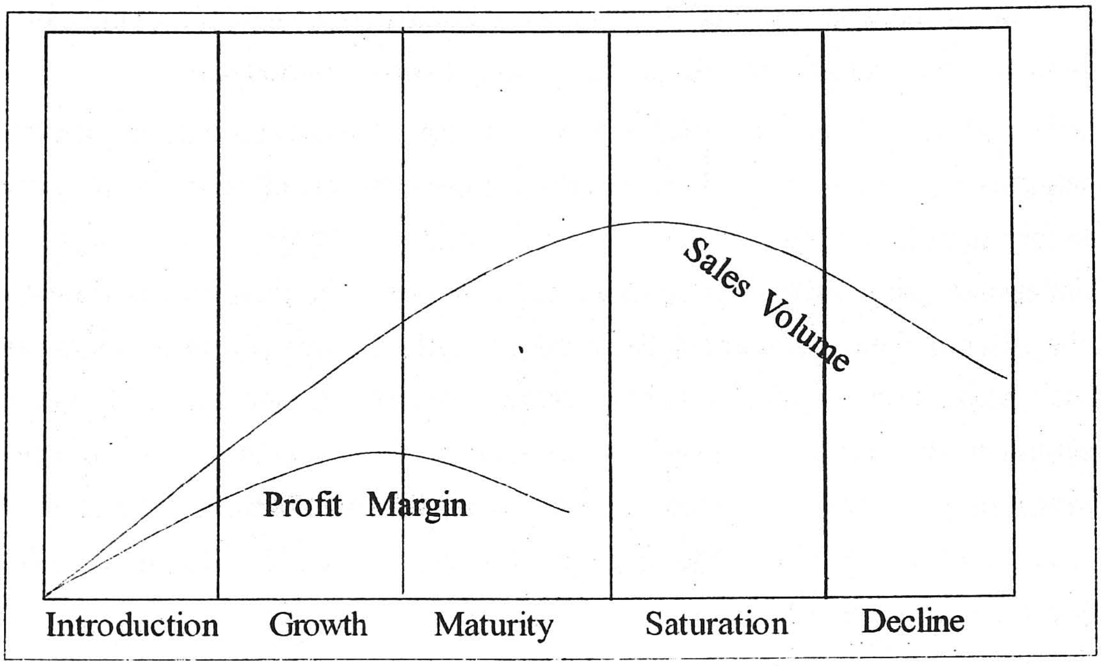
A product's life begins with its market introduction, and it passes through a period during which its market grows rapidly. After reaching the maturity stage, its market gradually declines and finally its life ends by the abandonment of the product.

The length of a product's life cycle varies from product to product. It ranges from few weeks to several years according to the nature of products. Even the duration of each stage also varies among different products. Some take years to pass through the introductory stage while others get customer's recognition in few weeks. In certain companies, products fail in their introductory stage itself and in certain other companies they fail in their growth or maturity stage. It all depends on the environmental conditions and the way in which the products are adjusted by the management. Now let us take up the various stages one after the other.

Figure.6.2 Product Life Cycle



6.7.1 Introduction or Pioneering Stage

At this first stage of a product's life cycle, it is introduced into to the market with a full scale of production. That means, it is introduced after it has gone through various parental stage like exploring the ideas for new products, screening the ideas for new products, business analysis, product development and test marketing. The introduction of a product may be a new one or, an introduction of a few features to a well known existing basic product or introducing the existing product in other market with the intention of taping out new markets. In this pioneering stage, emphasis must be given to the promotion of primary demand. The basic strategy needed here is to find people and then make them to try the product. In the absence of competitors, the innovating company implements its plans to inform the target market segment arid middlemen of the products existence. Personal selling and advertisement too are carried on, to be effective. Generally the innovator group of buyers (usually with higher incomes) will be the early buyers and later demand comes from lower income groups.

Technical imperfection and other product weaknesses notices during this stage are removed. It also helps in freezing its product design as well as large scale production and marketing. However, pioneer stage is the most risky and expensive as many products fail in this stage. Thus operations in the introductory stage will result in high costs, low sales volume and limited distribution.

6.7.2 Growth Stage

In the growth stage, market acceptance of the product is evidenced by the rise in sales and profits, often at the rapid rate. More competitors enter the market, if the profit outlook is attractive. On account of the competitive tempo, more and more potential buyers know about the product in sufficient volume and to market it with minimum delay. Sellers shift their promotional activities towards stimulating selective demand by emphasizing their one brand's advantages. Thus, their promotional strategy emphasize on "buy-my-brand" instead of "try-my-brand". Competition increases rapidly, mass production technique; and sophisticated physical distribution systems come info force. Thus, they result in fall of prices and increase in the number of distribution outlets. In the growth stage, only those companies which have established their brand name with customers and having sound distribution system and strong financial position alone will be the, most likely survivors.

6.7.3 Maturity Stage

As a product matures, it rate of growth slows down and profits begin to decline. During this stage competition becomes acute and only most efficient firms are able to survive. Stiffening competition results in lower profits and prices but increases the marketing expenditures. Though sales increase, it is only at a decreasing rate. There is no real increase in sales except the increase due to increase in population or changes in consumer's habits and buying behaviour. Firms concentrate now more on marketing techniques.

Competitors heavily promote their brands and even product lines are broadened with the intention of introducing product differentiation and there by appealing more strongly to specific market segment: thus creating, greater strain on the profit position of the firm. Even dealers will not stock all available brands They prefer only those which have greatest consumer acceptance. Thus marginal products drop out and only well-known firms who are able to withstand the strain due to their extremely effective marketing programmes continue to exist.

6.7.4 Saturation Stage

In this stage all characteristics described in the preceding stages are intensified. The duration of the market maturity stage varies for different kinds of products.

6.7.5 Decline Stage

No product lasts for ever. Under the market decline stage obsolescence of the product sets in either on account of some new innovation of a product or an evolving change in consumer buying behaviour. The new products start their own life cycles and replace the old ones. On account of this, sales drop and cost control becomes increasingly

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Check Your Progress
I Fill in the Blanks:

1. A group of different types of products, related and unrelated, which are offered for sale by a company is called ——.
2. The process of introducing higher quality products by a manufacturer, whose low quality products are famous, is called ——.
3. Product innovation, product standardization and product diversification are components of ——.
4. —— stands for the discarding of product in product line.
5. Introduction, growth, maturity, saturation and decline are the stages of ——

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important. Drastic reductions occur in advertising and other promotion a activities. A number of competitors withdraw from the market. Under these conditions, the product has to be abandoned and therefore most management shifts their attention to other products, gradually abandoning the declining product as its outlook grows increasingly bleak.

6.8 BRANDING

A brand is a "name, term, symbol or design to identify the goods or services and to differentiate them from those of the competitors". In the words of American Marketing Association "a brand is a name, term, symbol or design, or some combination of these, to identify the product of a certain seller from those of competitors."

Branding is a process by which a product is branded. It is the process of giving a specified name to a product or group of products of one seller. In other words, it is the process of finding and fixing the means of identification or naming a product like naming a baby.

The Branch name is that part of a brand which can be vocalized-utterable. According to the American Marketing Association, the brand name is defined as "a brand or part of brand consisting of a word, letter, group of words or letters comprising a name which is intended to identify the goods or service of a seller or a group of sellers and to differentiate them from those of competitors". It is nothing but a combination of letters, words or numbers. For example: Maruti car, Samsung T.V., Titan Watches, etc.

Branch mark is that part of a brand which can be recognized but not utterable, such as a symbol, design or distinctive colouring or lettering. It is recognized by sight, but not pronounceable. It is designed to easy identification of product. For example, the symbol of Anacin's four fingers.

The American Marketing Association defines a trade mark as a brand which is given legal protection, because, under law it has been appropriated excursively by one seller. Thus, "trade mark" is essentially a legal term. All trade marks are brands and thus, include the words, letters, or numbers which may be pronounced.

Check Your Progress
State whether the following statements are true or false:
6. Product mix is two dimensional.
7. Product line refers to a group of closely related products.
8. Product innovation implies bringing into existence new product.
9. FMCG stands for fast moving consumer goods.
10. The letter 'R' in circle on the packaging of the product indicates that the brand is duly registered.

6.8.1 Classification of Brands

On the basis of ownership, brands may be classified into two viz., producer's and middleman's brands. They are also known as "national" and "private" brands.

6.8.2 Benefits of Branding

The following are some of the reasons for the use of brands.

1. Brands enable the purchaser to identify the product or service he desires.
2. Brands identify the firm behind the product
3. Branded products tend to improve in quality over the years. Competition forces this improvement, for brand owners are consistently seeking new ways to differentiate their products in order to section a stronger market position.

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4. Brands increase the chances of success of advertising and sale promotion programmes, as branded goods are generally considered be of high quality.

5. Brandling also helps the brand owner to stimulate repeat sales and protect himself from product substitution.

6. A brand itself differentiates a product and enables the brand owner to establish a price which cannot easily be compared with ptices for competing goods.

7. Branding also reduces price flexibility. The prices of well-known brands tend to fluctuate less than those of non- branded items.

8. Branding facilitates expansion of product mix. If a .firm has one or more lines of branded goods, it can add a new item to its product mix much more easily than a company selling unbranded merchandise.

9. A well-known brand helps a manufacturer to withstand the effects of severe price competition.

6.8.3 Characteristics of good brand

Brandability depends on the nature of the product and the way of customer purchases it. Some items are not branded because of difficulty in differentiating the products of one firm from those of another. Cloth pins and industrial raw materials are examples of goods for which product differentiation is generally unknown. The brand name should be short, easy to pronounce, spell and remember. A good brand name should suggest something about a product's benefits, its use, characteristics, quality and action. A brand name should also be distinctive. A brand name sufficiently versatile to be applicable to new products added to the product line

6.8.4 Brand Loyalty

All the sellers of branded goods want consumer's loyally i.e., the consumers should insist on that particular brand and accept no substitute. How to measure the loyalty of consumers? Cunningham has suggested three alternative ways of answering this question:
(1) using a measure of the customer's loyalty lost and gained over specific time periods.
(2) examining sequences of individuals purchases over time, and or (3) looking at the share of the market.

6.8.5 Reasons for not Branding

Many firms do not brand their products, because, they are either unable or unwilling to assume the two major responsibilities inherent in brand ownership: (1) the responsibility for demand stimulation through advertising, personal selling and other forms of promotion and (2) the responsibility for maintaining an adequate quality of output.

6.8.6 Generic usage of Brand Names

In certain cases, the brand name is substituted for generic or descriptive name of the particular product. People associate the name with the product and not with the producer

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of the brand. Examples of brand names which have become generic are aspirin, celluloid, kerosene and nylon. Originally, these were trade marks limited to use by the owner; but they have long since lost their distinctiveness and any firm may use them.

A brand name may become generic in several ways. Sometimes a patent expires and there is no other practicable name available to the public. This happened with nylon and cellophane. While not yet legally generic, names such as Brand-Aid, Frigidaire are on the border line. There are outstanding brand names for the original product and have been promoted so well that many people use them generically. Ideally, a firm wants its brand to be preferred and even insisted upon by consumers, but it does not want its brand name to become generic.

There are several strategies which marketing -management may adopt to prevent the generic use of its brand. One is to use two names, the brand name in conjunction with the company name or the brand name together with generic name. Another Alternative is to give actual notice to the public that the brand has been copy-righted. Other preventive strategies include displaying the brand in some distinctive typographical fashion on avoiding the use of the trademark in any altered form.

6.8.7 Brand Policies and Strategies

a) Manufacturer's Strategies

A manufacturer's decision must be based on recognition of the value of branding and the responsibilities of brand ownership. He must decide whether to brand his product and to sell any or all of his output under a middleman's brand.

b) Market of entire output under manufacturer's own brand

Companies which follow this brand policy typically are very large well financed and well managed. They have broad product line, well established distribution systems and large shares of the market. Manufacturer's products afford a more ready source of supply. Even though they usually carry lower gross margins, manufacturer's brands often have a higher rate of turn over and better profitability. Middlemen often prefer to handle manufacturer's brands, especially when the brands have high consumer acceptance.

c) Marketing under middlemen's brand

Manufacturers may select the strategy of selling either port of their output or their entire output under the brands of one or more middlemen. This method increases the volume of sales and profits. Also a manufacturer may utilise his production resources more effectively including his plant capacity. Interims of marketing strategy, manufacturer can get, from the middlemen whom he is supplying, information regarding consumer behaviour, the middlemen's operations and even competitor's programmes. The most serious limitation to marketing under a middleman's brand is that the manufacturer is at the mercy of the middlemen. He has also no assurances of continuity of orders. Further, his good will may suffer, if the public knows of his dual role of selling under his OW" brand and under the brand of a middleman. Only a few manufacturers market their entire output undei

middlemen's brands. These products typically are ,., small, inadequately financed, or lack the marketing resources knowhow and warrant the use of their own brands.

d) Middlemen's Brands in conjunction with Manufacturer's Brands

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Many large retailers and some large wholesalers have their own brands, to establish and market one's own brand successfully, a retailer must have earned the confidence of his customers and he must carefully maintain a high level of quality control over the items which he selects to sell under this brand. He should also have very large sales volumes. Large middlemen, retailers particularly, may incur the ill-will of manufacturers, if they decide to use their own brands in direct competition with strong and established manufacturer's brands. However there are many advantages to a middleman if he uses his own brand. It increases his control over his market. He can have more freedom and flexibility in pricing a product under his brand. A middleman who has his own brand need not fear that the manufacturer will either withdraw his brand or may not sell to him.

6.9 PACKAGING

Nearly all manufactured and processed goods require packaging protection in their journey through wholesaler, retailer or distributor to the final consumer. But packaging is not just a question of protection. Its role is increasingly one of embodying selling power in its design. Most companies recognise that packing is important for purposes of protection and convenience. But, this attitude is changing and the marketing significance of packaging is being recognised. The packaging of a consumer product is an important part of the marketing plan. The increased use of branding and the rising standards of health and sanitation have contributed to the growth of packaging. Because of the growing importance of packaging, the responsibility for this activity should rest with top management. Packing means wrapping of goods before they are transported or stored or delivered to a consumer. On the other hand, packaging is the sub-division of the packing function of marketing. The wrapper or the container is called package.

Packaging has been defined as "the art and or science concerned with the development and use of materials, methods and equipment for applying a product to a container or vice versa designed to protect the product throughout the various stages of distribution." It is also defined as "an activity which is concerned with protection, economy, convenience and promotional considerations".

William J. Stanton defines packaging as "the general group of activities in product planning which involve designing and producing the .container or wrapper for a product". According to Philip Kotler, "Packaging is the activities of designing and producing the container or wrapper for a product"

Packaging is closely related to labelling and branding because the label often appears on the package and brand is typically on the label. Many marketers have called packaging as fifth 'P' along with four 'Ps' i.e. product, price, place and promotion.

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A good package represents a combination of the designer's creative skills and the product as well as marketing and sales knowledge of the manufacturer's management team. The development of packaging is thus the sum total of the talents of the designer, the researcher, the technician, the advertising man, the marketing expert the sales department and the top management.

6.9.1 Functions of Packaging

The following are the important functions of packaging:

a) Product Protection

A package protects a product during transportations, inventory process and in some cases even during its life with the customer.

b) Product Convenience

Compared with bulk items, packaged good are more convenient, cleaner and less susceptible to losses from evaporation, spilling and spoilage. In a distribution system, wholesalers and retailers derive cost benefits from protective packaging of manufacturer's products. Self-service convenience and unit packaging plus economy would influence packaging development.

c) Product Identification

Packaging may be used to achieve common identification of the various products in a company's line of products.

d) Effective Sales Tool

Packaging helps in implementing the marketing programme effectively. Packaging can be used effectively to introduce a new product. The package of a product may be used in an effort to extend the product life cycle. Management may pack a product in such a way as to increase profit possibilities. Packaging also reduces pilferage rate in the retail store. Package designs have become more important with the development of self service stores. Packaging is especially useful in getting display in retail stores, where it is difficult for the seller to secure adequate representation because window space is small and counter space is not available. There are many ways in which packaging can promote a product. If a package fails, the product will probably fail, but an effective package will not guarantee the product's success.

e) Product Attractiveness

Some features of the package may serve as a sales appeal. At the point of purchase, the package serves as a silent salesman, encouraging impulse buying. Seasonal fluctuations in demand may be smoothened through packaging. A package may be so attractive that customers will pay more just to get the special package.

f) Product Differentiation

Packaging helps to achieve a greater degree of product differentiation. This is particularly important where the intrinsic differences between the products of manufacturers

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are negligible or not easily apparent to the customer. Packaging thus helps brand identification and building up of brand image.

6.9.2 Characteristics of a good package

A good package should attract attention, immediately establish identity, develop and sustain interest, create the desire to possess the product, compel action to purchase the product, and enhance the performance, character and total image of the brand. In designing a package, the "A-I-D-A-S" formula can be followed. It consists of five essential elements in designing a package viz.

A - Attention

I - Interest

D - Desire

A - Action

S - Satisfaction

A wall designed package will immediately attract attention, develop and sustain interest, create a desire in the consumer to possess the article. If a package fails, the product will probably fail. Hence, while designing the package, the marketing manner should consider the following points, viz., colour, shape or size, graphic illustration and package copy.

6.9.3 Packaging Policies and Strategies

a) Changing the Package

Whether to change a package and, if so, when to make the change and related problems, the trend today is in favour of change and this trend is gaining momentum. In general management has two reasons for considering package innovation: a decrease in sales or a desire to expand a market by attracting new, groups of customers. The new package maybe used as a major appeal in the advertising copy or the old containers may not show up well in advertisements. Some companies change their containers to aid in the firm's promotional programme.

b) Packaging the product line

A company must decide whether to develop a family resemblance in the packaging of its several products. Family packing involves making the packages identical for all products or using some common feature on all the packages. When new products are added to a line, promotional values associated-with old products extend to the new ones. On the other hand, this strategy should be used only when the products are related in use and are of similar quality.

c) Re-use Packaging

Another strategy to be considered is reuse of packaging. Should the company design and promote a package which can serve other purpose after original contents are consumed? Glasses containing cheese latter be used for fruit juices. Re-use packaging should stimulate repeated purchase.

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d) Multiple Packaging

For many years, there has been a trend tow:: lrds multiple packaging, or the practice of placing, several units in one container. Motor oil, soap, building hardware, towels and other products are packaged in multiple units. Multiple packaging increases the total sales of a product. Multiple packaging can also help to introduce new products and win consumer acceptance of a new product. Retailers like this method of packaging because it cuts unit-handling and price marketing costs.

6.10 KEY TERMS

- **Product**

  It is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need.

- **Product Mix**

  It is the set of all product lines and items that a particular seller offers for sale to buyers.

- **Product Policy**

  It refers to objectives and guidelines which determine the type, volume and timing of the products a company offers for sale.

- **Product Life Cycle**

  It refers to various stages in the life cycle of product in a market – Introduction, Growth, Maturity, Saturation and Decline

- **Branding**

  It is the practice of giving a specified name to a product or group of products of a seller.

- **Packaging**

  It is an activity which is concerned with protection, economy, convenience and promotional consideration.

6.11 SUMMARY

A product is a bundle of utilities consisting of various product features and accompanying services. It is one which satisfies the needs of consumers. A product mix is the composite of products offered for sale by a firm. As long as the profit motive is the criterion for the existence of a firm, changes in product mix are inevitable. Products are broadly classified into consumer products and industrial products. The Product Life Cycle is an important concept of marketing as it provides insight into a product's competitive dynamics. It indicates the various stages through which a product passes. The five stages

of a product life cycle are introduction, growth, maturity, saturation and decline. A new product is the result of a series of steps taken by a company beginning with the conception of new ideas to its successful commercial exploitation. Branding is a process by which a product is branded and includes giving a brand name to a product, designing a brand mark and establishing and popularizing it. Packaging deals with the activities of planning and designing of different means of packing the products.

6.12 ANSWERS TO CHECK YOUR PROGRESS

1. Product Mix
2. Trading Up
3. Product Planning
4. Product Elimination
5. Product Life Cycle
6. False
7. True
8. True
9. True
10. True

6.13 QUESTIONS/EXERCISES

Section A

1. What is Product Mix? Explain the factors influencing changes in product mix.
2. Explain the importance of product planning.
3. Explain the various stages of new product development.
4. What are the various stages in product life cycle?
5. What are the characteristics of a good package?

Section B

1. Describe the reasons for failure of new products introduced in the market.
2. Discuss the benefits of branding.
3. What is Product Innovation? Explain the reasons for product innovation.
4. Explain the different classification of products.

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6.14 FURTHER READINGS

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2. S.P.Bansal (2004), "Marketing Management", Kalyani Publishers, New Delhi.

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UNIT 7 PRICE MIX

Structure

7.0 Introduction
7.1 Unit Objectives
7.2 Pricing and Price Mix
7.3 Pricing Objectives
7.4 Factors influencing pricing decisions
7.5 Pricing Methods
7.6 Pricing Policies and Strategies
7.7 Key Terms
7.8 Summary
7.9 Answers to Check Your Progress
7.10 Questions/Exercises
7.11 Further Readings

7.0 INTRODUCTION

In marketing management, pricing is a very critical decision as it affects sales, revenue and ultimately the profits. Without prices there can be no marketing. Price is an important element of the marketing mix and also a marketing tool in the hands of an efficient marketer, which can be used as a strategic marketing variable to meet competition. A price is simply an offer or an experiment to test the pulse of the market. If the customer accepts there offer, this is fine. If they reject it, the price usually will be changed quickly or the product may even be withdrawn from the market. Therefore, sound pricing policies must be adopted to ensure that the organisation secures satisfactory profits.

7.1 UNIT OBJECTIVES

- To understand the importance of price mix
- To highlight the pricing objectives
- To identify the various factors influencing the pricing decision
- To discuss the different methods of pricing
- To explain the pricing policies and strategies

7.2 PRICING AND PRICE MIX

Price is the exchange value of goods or services in terms of money. The price of a product or service is what the seller feels it worth, in terms of money, to the buyer. Price is

the value expressed in terms of rupee and pa se, or whatever the monetary medium may be in the country where the exchange occurs.

Price Mix

William J. Stanton defines "price is the amount of money which is needed to acquire in exchange some combined assortment of a product and its accompanying services".

Market prices are prices at which goods exchange hands. They are the prices at which goods are offered for sale by one person to another for the purchase of the same. Price which tends to equal to cost of production for a long period of time is regarded as normal price.

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According to Philip Kotler, "It is the only element in the marketing mix that produces revenue, the other elements product costs. Price is also one of the most flexible elements of the marketing mix that can be changed quickly, unlike product features and channel commitments. At the same time, pricing and price competition are the number one problem faced by many marketing executives".

7.2.1 Importance of Pricing

Pricing is considered by many to be the key activity within the capitalistic system of free enterprise. Price becomes a hub around which the system revolves. It is the balance wheel which keeps the system operating on an even keel. The market price of product influences wages, rent, interest and profits, that is, the price of a product influences the factors of production.

A company's pricing structure more than any other segment of its marketing programme is influenced by State and Central Government legislation. The price of a product or service is a major determinant of the market demand for the item. Price also affects the market segment that will be reached by a firm. The price of a product also affects a firm's marketing programme.

a) Economic concepts in Pricing

The marketing manager has to be familiar with economic theory as it offers useful concepts of studying price.

The Law of Demand states that other things being equal the demand for a commodity expends at lower prices: it contracts at higher prices. If other things change the law will fail.

The other things are income and tastes of the consumer, fashion, size of population, climate etc. The demand curve usually slopes downwards from left to right.

b) Demand elasticity

The economists will speak of products having an elastic-or inelastic demand. The Law of Demand states that if the price of a commodity falls, the quantity demanded increases and vice versa. The law of demand tells, only the direction of change but elasticity gives us information about rate at which the change takes place. The term" elasticity" expresses the degree of correlation between demand and price. When demand is perfectly elastic, buyers will purchase up to infinite amount with no change in price.

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When demand is perfectly inelastic there is no change in what buyers will purchase with any change in price. As the extremes generally do not apply the marketing manager is more concerned with whether the demand is relatively elastic or relatively inelastic.

The demand for a commodity is said to be relatively elastic, if it changes considerably in response to a given change in its price. For example in case of motor-cars in India, the curve would be highly elastic. Hence, where the demand for a commodity is relatively elastic generally the price should be fixed as low as possible in the interest of total profitability.

The demand for a commodity is said to be relatively inelastic when the degree. of response in the quantity demanded to given change in the price of a good is negligible. Salt is an example of such a product.

c) Demand expansibility

Different from the elasticity concept is that of demand expansibility. An increase or decrease in demand means that the demand curve is move to the right or left, respectively, of an existing curve. In the first instance, the shift of the curve to the right would mean that at the same prices more could be sold or a higher price could be charged for the same quantity. The converse would result from a movement of the curve to the left with the decrease in demand. The function of sales efforts is to shift the demand curve to the right by obtaining new uses of achieving increased consumption by old users.

d) Economic environment

In the Indian context, the marketing manager should also be aware of the present trend of political and economic thinking against concentration of economic power in few hands. Hence, even if a concern enjoys monopolistic position, the marketing manager should not fix a very high price for the product. Thus, while pricing a commodity, the marketing manager must take into account the various economic concepts that are relevant as well as the trend of economic and political thinking in a particular country.

7.2.2 Procedure for Price Determination

The price determination procedure can be divided into six steps:

1. Estimate the demand for the product
2. Anticipate the competitive reaction
3. Establish the expected share of the market
4. Select the price strategy to be used to reach the market target
5. Consider company policies regarding products, channels and promotion
6. Select the specific price

a) Estimate the Demand for the Product

The price a firm may charge for a product depends to a large extent on demand. Marketing managers are not just concerned with the absolute level of demand at each price. They also want to know that how fast demand changes in response to price changes. In some cases, the quantity demanded changes very little or not at all when price changes.

For example, the increasing price of convenience goods (e.g. salt) may not affect the demand level. While, on the other hand, increase or decrease in the price of speciality goods (e.g. refrigerator) may affect the demand level, i.e., demand fluctuates a good deal in response to price changes.

b) Anticipate the competitive reaction

The price may also be determined by taking into consideration present and potential competition. Competition may arise form i) similar products ii) close substitute and iii) unrelated products seeking the same consumer's disposable income. To anticipate the reactions of the competitors, it is necessary to collect information about their products, cost structure, market share, etc. Every marketer tries to avoid potential competition either by reducing the prices or by entering into the new market segments.

c) Establish the expected share of the market

A marketer should decide the share of the market at the expected price. Low priced products may capture larger share of the market, and a high priced product may capture a small share of the market. A company which wants to capture the large share of the market will have to choose a different pricing strategy, promotion strategy and other forms of non-price competition. The share of the market is also determined by other factors such as present production capacity, cost of plant extension, etc.

d) Select the price strategy to be used to reach the market target

A good and proper pricing policy may be employed to achieve a predetermined share of the market. There are two methods, namely, Skimming pricing and Penetrating pricing. In the skimming pricing strategy, a very high price of the product is fixed in the initial stages so that the cream of demand may be skimmed since the competition is at minimum. The price can be brought down easily if the market is unfavourable. By using this strategy, the investment made in product can be realized very quickly while in the penetrating pricing strategy, a low price of the product is to be fixed in the initial stage to reach the market immediately, i.e., rapid penetration of the mass market is the aim which can be achieved when quantity sold is highly sensitive to price. A low price of the product in the initial stage may discourage other firms form entering the market.

e) Consider company policies regarding products, channels and promotion

Under the product policies, it is better to know about the economic characteristics of the product so that pricing may be done suitably. Pricing of the product depends upon the product line or product mix. It also depends upon the permanent or perishable nature of the product. The length and size of the channel used and the gross margin requirements of the middlemen influence the pricing decisions. Pricing decision more or less depends upon the promotion mix used. The larger the promotional method applied, the higher the prices will have to be set to cover the high cost of promotion.

f) Select the specific price

The final step is selection of a specific price for the products by the producer. There is no specific method for setting the price. Procedures used for setting a specific price vary under different competitive conditions. There are several methods adopted for pricing the products and the choice of these methods depend upon pricing need and decision input constraints faced by management. The different methods of pricing will discussed in detail later in this unit.

7.3 PRICING OBJECTIVES

Every business firm requires a pricing policy for the determination of suitable prices of its products and services. Pricing objectives are a crucial aspect of the means-end chain from overall company objectives to specific pricing policies and procedures. To perform the marketing job efficiently, the management has to set goals first. The goal of the firm and the marketing organization provide the basis for the development of pricing objectives, which must be clearly established before pricing policies and procedures are implemented. The pricing objectives must be related to the company's overall goal or objectives. They may vary from one company to another. The important pricing objectives are discussed below:

7.3.1 Profit Maximisation

One of the basic pricing objectives of any company is profit maximization though it is assumed to be traditional. It helps the firm to maximize its earnings under given market conditions. It should be a long term objective of the firm. When a short run policy is adopted for maximizing the profit, it will exploit the customers as they may have a feeling of monopoly and high price. A firm should aim at maximizing the profit on total output, rather than on every item.

7.3.2 Target Return on Investment

When a businessman invests capital in a business, he calculates the probable return on his investment. Earning a satisfactory rate of return on capital employed as a long term basis is the most logical pricing objective. A certain rate of return on investment is aimed. Accordingly, the price is fixed. It includes the predetermined average return. Many firms adopt the objective of pricing in terms of "return on investment". The ROI objective has the advantages of maintaining price stabilization and of enhancing the goodwill of the customers.

7.3.3 Maximisation and Stabilisation of Market Share

Mazimising and stabilizing the market share is an important objective and meaningful measure of the success of a marketing strategy. The management can compare the present market share with the past market share and can know well whether the market share is increasing or decreasing. When the market share is decreasing, low pricing policy can be

adopted and vice versa. Many companies adopt the main pricing objective so as to maintain or to improve the market share towards the product.

7.3.4 Price Stability

It is a long run objective and aims at preventing frequent and violent fluctuations in price. It also prevents price war amongst the competitors. The firms interested in minimum risks always prefer the theory of stable prices, i.e., not allowing them to fall below a norm during slump and not allowing them to rise above norm during boom. This objective helps to achieve stabilizing the sales turnover, avoiding uncertainty and panic buying, eliminating the evils of price competition and maintaining the goodwill of the firm.

7.3.5 Meeting Competition

The pricing objective aims at meeting or preventing competition. While fixing the price, the price of similar products, produced by other firms, will have to be considered. Matching or marring the competitors is the simplest strategy in case of those companies that are more interested in non-price strategies. They are ready to fix their prices more or less at par by the competitors. Sometimes, they are prepared to follow 'below cost pricing' in order to fight competition. Sometimes, they charge less than the cost to prevent the entering of new firms in the market.

7.3.6 Other Objectives

To maintain the image of the firm which helps to increase the sales volume, many companies set high prices so as to maintain a quality image. It is the sum total of the impression that the people have some idea about the firm. Various reputed companies like Tata, Phiips, etc., followed that price policy that supported in the light of their long standing reputation. A number of social and ethical considerations are the determining factors in certain pricing situations. The prices that are charged differ from person to person according to his capacity to pay. For instance, doctors charge fees for their services according to the capacity of the patient.

7.4 FACTORS INFLUENCING PRICING DECISIONS

Numerous factors, both internal to the company and environmental (external) affect pricing decisions. Among the "internal" factors are company's objectives and desired public image, the other strategic components of over all marketing strategy (product, market, distribution land promotional strategies) and costs. The environmental factors include and competition, buyer psychology and behaviour and governmental pressures.

7.4.1 Internal Factors

There are several internal factors which arise within the premises of business and the management has substantial control over such factors. The internal factors influencing pricing decisions are discussed below:

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a) Company objectives and desired public image

It is of utmost importance that pricing decisions be consistent with company objectives and the desired public image. Unwise pricing can damage a favourable image that has taken years to build. Therefore, pricing objectives should derive directivity from company objectives. Similarly, price policies should be consistent with pricing objectives. And pricing strategies (i.e. the ways in which polices are implemented) should be in line-with price policies and pricing objectives.

b) Stage in Product life cycle

The amount of freedom management has in making pricing decisions varies with the stage in the product life cycle. During market pioneering the innovator enjoys wide discretion in setting prices. Competitors enter during market growth. stage, but non-price competition prevails and at first individual companies (because of differentiated products) have considerable freedom in pricing. During later phases of market growth and early phases of market maturity, different competitors see opportunities to "widen the market" and price reductions become key factors in securing further market expansions. Sometime during market maturity, however, the market approaches saturation and price reductions no longer expand sales. Hence, competitors introduce new models or product differentiation to get new, users.

c) Product Differentiation

Competing on a non-price basis depends not only on the amount of product differentiation but on its relative importance to prospective buyer. Customers who consider product differentiation important do not wholly ignore price, but they are not likely to buy competing brands solely because of small price differences. A prospective new-car buyer with a strong preference for Chevorlet, for example will not buy a Ford or Plymouth because of a price different unless it is substantial. Further, while making pricing decisions, the marketer should consider the elasticity of his products.

d) Distribution strategy

Distribution strategy also influences pricing decisions. Specifically the producer's pricing decisions must take in to account the size of the gross margins middlemen expect. Such expectations reflect individual middlemen's costs and thp.ir profit objections as well as the scope and importance of the activities of each to perform for the manufacturer. In fact, each middleman's costs and services and the performance are related. Generally, pricing discretion varies with the length and complexity of the chain of distribution.

e) Promotional Strategy

Promotional Strategy also affects pricing decisions. If a manufacturer for example, uses massive advertising to pull the product through the channel he will probably allow somewhat less than normal gross; margins to middleman if he expects them to assure some of the advertising burden, they will expect greater than normal gross margins.

f) Costs of the product

Price naturally depends on the cost of the product. To the extent to which costs can or should enter into pricing decisions varies. (This will be discussed in detail at the later part of the lesson).

7.4.2 External Factors

There are several external factors over which the firm has no or least control which require carefully analysis and interpretation correctly. Under these conditions, the marketer faces many difficulties while determining the price of a product. The external factors influencing pricing decisions are discussed below:

a) Estimating Demand

The market demand for a product or service obviously has a big impact on pricing. Since demand is affected by factors like number and size of competitors, the prospective buyers, their capacity and willingness to pay, their preference, etc. are taken into account while fixing the price. If the demand for the product is inelastic, high prices may be fixed. On the other hand, if the demand is elastic, the firm should not fix high prices, rather it should fix lower prices that that of the competitors.

b) Competition

The nature and extent of competition also has its effects on the pricing decision. Some products face severe competition from substitute products. In case of others this is not of such great importance. In case of certain products, the number of competitors may be only a few. Thus, the type of industry and nature of competition play an important rote in pricing decisions. Furthermore, in making price changes, a marketer must consider competitors likely reactions. Will they follow a price rise or a price cut? How soon? A price change is the easiest switch in marketing strategy to copy and copying can be almost instantaneous.

c) Buyer psychology and behaviour

The effectiveness of relative price as aid in making sales varies with buyer psychology and behaviour. Buyers shopping for "high" fashion items often regard their price as of secondary importance. In the case of industrial marketing, buyers of machine tools give first consideration to such product attributes as quality and durability and give only secondary importance to price. Moreover the relative prestige of certain products in the consumer goods field varies directly with their prices. However, low price is a very important aid on selling products which are difficult to differentiate e.g. sugar and certain industrial raw materials.

The frequency with which the typical buyer purchases a product also influences pricing decisions. The quality of a product usually bought at one time by a typical buyer also affects pricing decisions. The relative bargaining power of potential buyers also influences pricing decisions.

d) Legislation and Governmental Pressures

Practically every country has legislation that influences pricing decisions. In the case of basic industries, governmental intervention in pricing decisions will be more. In industries whose members produce less "basic" and more differentiated products, the likelihood of Governmental intervention is more remote but still possible. In fact, Governmental intervention in pricing decisions is likely to become increasingly frequent and more influential in the future, especially during inflationary periods.

e) Suppliers

Suppliers of raw materials and other goods can have a significant effect on the price of a product. If the price of cotton goes up, the increase is passed on by suppliers to manufacturers. Manufacturers, in turn, pass it on to consumers. At the time of fixing the prices of the product, the manufacturer should give due consideration to the needs and expectations of various suppliers involved in the distribution process. If the manufacturers or users are making higher profits margins and then input is significant and cannot be substituted, then the suppliers try to raise prices.

f) Economic Conditions

The pricing decisions are directly affected by the economic conditions prevailing in the country or a region. The inflationary or deflationary tendency affects pricing. In recession period, the prices are reduced to a sizable extent to maintain the level of turnover. On the other hand, the prices are increased in boom period to cover the increasing cost of production and distribution. To meet changes in demand, price, etc. several pricing decisions are available.

7. 5 PRICING METHODS

The different methods adopted for pricing the products can be classified into three broad categories as follows:

- Cost Based Pricing Methods
- Competition Based Pricing Methods
- Demand Based Pricing Methods

7.5.1 Cost Based Pricing Methods

The two cost concepts most relevant to pricing decisions are fixed costs and variable costs. Fixed costs often called "overhead costs" do not vary with the amount of business and include salaries, rent, heat, light, depreciation, property taxes and the like. By contrast, variable costs vary some what automatically with the amount of business and include such costs as those of raw materials, wages and salesmen's commissions and costs of packaging warehousing usage and shipping. The following are the important methods of pricing based on costs:

1. Cost-plus pricing or Mark Up Price
2. Marginal or Incremental cost pricing

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3. Break-even concept in pricing and

4. Demand - oriented pricing,

a) Cost-Plus Pricing

This is the simplest methods and also popular in India. The desired profit is added to total cost to arrive at the unit selling price. (Selling price = unit total cost +desired unit profit).

The practicability of this method depends on the costs and practices of competitors. For example, in case a competitor's costs are lower and he uses the same method for his pricing strategy obviously his prices will be lower. In case of a highly competitive situation the seller should reduce his cost to the level of the industry's lowest cost producer.

b) Marginal or Incremental Cost Pricing

In this method the price is fixed on the basis of the additional variable cost associated with an additional unit of output. The cost of producing and selling one more units, i.e., the cost of the fast unit is taken as the price of the final article. This method is useful in introductory campaigns. i.e. for introducing a new product. It is also useful for keeping labour employed during slack seasons and to prevent a shutdown. This method of pricing cannot be followed indefinitely, because the fixed costs should be absorbed.

c) Target Return Pricing

It is one of the most frequently used methods of pricing. Such target is expressed either in terms of percentage as investment or return on investment or specific amount of money.

$$ROI = \frac{\text{Revenue}}{\text{Assets}} \times \frac{\text{Profits}}{\text{Revenue}} \times \frac{\text{Assets}}{\text{Equity}}$$

Target return pricing is decided by the management keeping in view the various factors, viz., nature of business, degree of competition, type of market and average target of past few years.

7.5.2 Competition Based Pricing Methods

Instead of cost, emphasis here is on the market. Companies operating in highly competitive conditions have no choice but to opt this method. Under this method, the companies try to maintain its price more or less at par with its competition irrespective of its cost and demand. However, the company may also sell its products below or above the market price under different marketing conditions.

a) Psychological Pricing

Many consumers use the price as an indicator of quality. Costs and other factors are important in pricing. Yet, psychology of the prices is also considered. Certain people prefer high priced products, considered to be of high quality. Costly items like diamond, jewellery, etc. reveal the status of the persons, who wear them. They demand highly priced items. For example, highly priced television sets carrying prestige prices are in demand.

b) Customary Pricing

It is also known as 'Going Rate Pricing' in which prices of certain goods have become more or less fixed and the company cannot change it unilaterally for fear of adverse impact on sales volume and profit margin on account of kinked demand. The companies usually fix their price at the current market level and the situation is likely to perfect competition which is characterized by a number of homogeneous products. The prices must also be maintained even in the conditions of product changed. Any change in customary price results in a rapid declining in demand. This method is simple to understand and avoids a price war between the competitors. However, it fails to maximize profit margins under inflationary conditions and with the introduction of advanced technology.

c) Skimming Pricing

It involves a high introductory price in the initial stage to skim the cream of demand. The products, when introduced in the market have a limited period free from other manufacturers. During this period, it aims at profit maximization, according to the favourable market conditions. Generally, the price moves downward when competitors enter into the market field.

d) Penetration Pricing

A low price is designed in the initial stage with a view to capture greater market share. That is if the pricing policy is to capture greater market share, then this is done only by adoption of low prices in the initial stage. Because of the low price, sales volume increases, competition falls down.

e) Geographical Pricing

The distance between the seller and the buyer is considered in geographic pricing. In India, the cost of transportation is an important pricing factor, because of the wide geographical distance between the production center and consuming center. The majority of the producing centers are located in Bombay, Delhi, Calcutta and Madras and at the same time the consuming centers are dispersed throughout India. There are three ways of charging transit.

f) Administered Pricing

Administered Price is the price resulting from managerial decision, cost by the company. One or more cities are selected as points from which al shipping charges are calculated.

g) Dual Pricing

Under this dual pricing system, a producer is required compulsorily to sell a part of his production to the government or its authorized agency at a substantially low price. The rest of the product may be sold in the open market at a price fixed by the producer.

h) Mark Up Pricing or Cost Plus Pricing

It is generally adopted by wholesalers and retailers. When they set up the price initially, a certain percentage is added to the cost before marking the price.

i) Price Lining

It is generally followed by the retailers than wholesalers. This system consists of selecting a limited number of prices at which the store will sell its merchandise. Pricing decisions are made initially and remain constant for a long period. The firm should decide the number of lines and the level of each price line.

j) Negotiated Pricing

It is not fixed. The price to be paid on sale depends upon bargaining. In certain cases, the product may be prepared on the basis of specification or design by the buyer. In such cases, the price has to be negotiated and then fixed.

k) Competitive Bidding

Big firms or the government calls for competitive bids when they want to purchase certain products or specialized items. The probable expenditure is worked out. Then the offer is made quoting the price, which is also known as contract price. The lowest bidder gets the work.

l) Monopoly Pricing

Monopolistic conditions exist where a product is sold exclusively by one producer or a seller. When a new product moves to the market, its price is monopoly price. There is no competition or no substitute. Monopoly price will maximize the profits, as there is no pricing problem.

m) Oligopolistic Pricing

Oligopoly is a competitive market situation and the presence of a few large sellers, who compete for larger market share. None has control over the price it charges. Any firm may take initiative in fixing the price of a product and others will follow.

n) Price Leader

All the marketers should decide, whether as a matter of policy, they will initiate or follow price changes. The firm initiating price changes is called price leader and those following it, price followers.

o) One price Vs Variable Price

Generally, marketers prefer to sell at one price basis, i.e., by offering all like buyers exactly the same price. There is no bargaining and no favouritism is shown to any buyer. It is a fair trade practice. Under variable price, the seller sells similar quantities at different prices. Under this policy the price is usually set as a result of bargaining.

p) Resale Price Maintenance

Retail price is a price at which a retailer sells the products to his buyers. Resale price maintenance is a policy where manufacturers want to control the prices at which retailers will resell the manufacturer's product. Manufacturers adopt this as marketing policy, identify their product by brand, patent, trade mark, etc. and place restrictions and control on the price at which the products shall be sold by the retailers. The price will be

fixed by the producer and at the same price the product will be sold. The price fixed by the producer should not be altered. The producer must see that the price is maintained till his products reach the ultimate consumer. This policy prevents unhealthy price competition, bargaining, etc.

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7.5.3 Demand Based Pricing Methods

All those firms that set product prices based on costs or competition cannot afford to target the relationship between additional mark-ups or competitor's prices and market demand considerations. Demand for products has its impact and hence, demand schedules can be purposively incorporated into price setting with the help of demand modified break even analysis pricing.

a) Break-Even Pricing

This is a sophisticated pricing technique which takes into account both the fixed costs and the variable costs.

Since the interrelationship of cost and sale volume determines the amount of profit (or less), break even analysis helps in estimating the effects of different prices on profits. The breakeven point occurs at the place where total costs equal sales revenue, indicating that this is the number of units of product which must be sold at a particular price for the seller to barely cover his total costs. If sales volume goes beyond this point each additional unit sold brings in some profit; each sale before reaching this point is at a loss.

Break-even analysis also helps in evaluating the likely-effects on profits of various alternative solutions to many other marketing problems. For example, it can be used to show the effects on profits of altering the amounts invested in advertising. Break-even analysis helps in analysing any marketing problem in which alternative solutions differ as to their impact on costs and or sales volume.

Cost-oriented approaches rely on the idea of a standard mark up over costs or conventional level profits. Demand oriented approaches look at the intensity of demand. A high price is charged when on or where demand is intense and a low price is charged or where demands in week, even though unit costs may be the same in both cases.

Some pricing experts believe demand should be the only factor in setting the price.. They believe that price should be set not on cost; but on the customer's perceived value for the product. The customer's perceived value is based on the total performance psychological and service characteristics of the seller's offer. The customer's perceived value is estimated and then a price is set that would leave the customer with a slightly higher perceived value-to-price ratio than with any competing offer. This is felt to be a customer oriented approach to pricing. A common form of demand-oriented pricing is price discrimination in which a particular commodity is sold at two or more prices that do not reflect proportional differences is marginal costs.

Check Your Progress

I Fill in the Blanks:

1. The exchange value of a product or service in its monetary value is known as ———.
2. The price is fixed sufficiently low to get accepted the product to as many market segments as possible under ———.
3. F.O.R. means
4. A pricing method, in which the sellers submit sealed or open price proposals for the buyer's consideration, is known as ———.
5. ——— price quotation includes all charges and expense necessary for sending the goods to the buyer's place.

7.6 PRICING POLICIES AND STRATEGIES

A company can attain its pricing objectives though it's pricing policies and pricing strategies. Pricing policies constitute the general framework within which pricing decisions are taken. The pricing policies also provide the guidelines within which the pricing strategies are formulated and implemented. At the time of adopting the pricing policy, the seller should not be concerned only with the protecting his own interest but also the interest of consumers. The pricing policies and strategies are to be framed taking into account the following:

1. Aims and Objects of the Selling Organization
2. Nature of the Market
3. Competition
4. Nature of the Product
5. Discount and Allowances
6. Geographical Pricing
7. Price Variation Policy

7.6.1 Aims and Objects of the Selling Organisation

Some of the business organizations try to fix prices in such a manner to get maximum profit by charging higher prices and ignore the interest of the consumers. Most of the time, price policy is determined by their convenience and depends upon the market conditions. In the unfavourable market conditions, they may even charge lower prices. While the business organization like cooperative societies whose primary aim is to provide satisfactorily services to the customers and follow the 'no profit no loss' price policy.

7.6.2 Nature of the Product

The pricing policy more or less depends upon different types of customers belonging to different classes, i.e., higher, middle and lower. It may also be determined by the buying motives of the people. For high fashion and high quality products, price is of secondary importance. Sometimes, customers do not like even low priced product if it is poorly designed. But, however, the price is to be more elastic and any change in price directly, affects the market demand. There is a inverse relationship between price and demand. But the elasticity of demand depends upon the nature of the product. For example, any change in price for the essential products like salt will have little or no effect upon demand.

7.6.3 Competition

Every company adheres to some policy, either explicit or implicit, regarding the prices of its products relative to those of competitors. If the competitions in the same line of trade have a direct impact on the pricing policy, then, each company simply price its products the same as competitors. Under keen competition, it is essential to carefully formulate the pricing policy. Pricing above Competition level and Pricing below Competition level are the two methods followed by many companies.

7.6.4 Nature of the Product

Most of the companies deal with one more product lines. The pricing policy more or less depends upon the nature of the product and its demand. In general, high quality products fetches higher prices that those of inferior quality and perishable products. Pricing policy of new products need not be much different than those of existing products. Customary pricing, Psychological pricing and Promotional Pricing can be adopted depending upon the nature of the product.

7.6.5 Discount and Allowances

It is a special concession in price which many firms offer to their middlemen and also to the users. Discount and allowances are granted to a customer for the activity of value which he performs. These are granted to encourage the buyers mainly during the stipulated period and purely at the discretion of the sellers. The most common discounts allowed are quantity discount, trade discount, cash discount, seasonal discount and price level discount.

7.6.6 Geographical Pricing

While distributing a product over a wide geographical area by ship, train or truck, the marketer cannot escape the consideration of freight charges involved in transporting the goods i.e., "who should pay the freight charges". That is why, freight cost constitute an important factor in pricing strategy and policy, which help the firms to maintain and expand market share and ensure competitiveness of their product. The marketer either can bear the full cost of transportation himself or may pass full freight cost to the buyer or may share it with the buyers. The major geographical price policies are point-of-origin price policy and freight equalization policy. Point of origin price policy, also known as Free-On-Rail (F.O.R.) Price, is one in which the buyer besides selecting the mode of transportation bear its cost as well to the place of use. The seller is only responsible for paying the cost of loading the goods abroad the carrier. Many companies offer Freight Equalisation Policy to its customers where a company quotes the price which consists of the F.O.B. origin plus the transportation cost. The main three variations of the freight equalization price policy are Postage-Stamp Policy, Zone Pricing Policy, and Base-Point Pricing.

7.6.7 Price Variation Policy

In this price policy, the marketer tries to vary the prices of the product so as to match with the market needs. The three options with the company involving price variations are variable price policy, non variable policy and single price policy. Under single price policy, the seller fixes the same price to all the customers who purchase the same quantity of goods at a given time. There is no scope for negotiation and bargaining. It helps to gain customers' confidence. Variable price policy is one in which the company charges different prices for the same product to the similar customers at a given time. Non-variable price policy is less discriminatory as price charged varies from class to class, say, wholesalers, sub-wholesalers, retailers, and distributors. Under this policy, there is no price bargaining

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because the same price is quoted for similar class and therefore, there is no cause for friction and dissatisfaction among the buyers.

7.7 KEY TERMS

- **Price**

  Price is the exchange value of goods or services in terms of money

- **Price Mix**

  It refers to combination of various elements relating pricing of a product or service of a firm.

- **Pricing Policy**

  It refers to Policy of the firm regarding the determination of price of its product or service.

- **Skimming Pricing**

  It involves fixing a high introductory price in the initial stage to skim the cream of demand.

- **Penetration Pricing**

  It involves fixing a low introductory price in the initial stage with a view to capture greater market share.

7.8 SUMMARY

Price is an important element of marketing mix. It is an exchange value of a product or service expressed in monetary term. The important pricing objectives are maximizing profit, achieving satisfactory return, maximizing market share, meeting competition and maintaining price stability. At the time of fixing the price of a product, many factors internal and external must be taken into consideration. There are different methods adopted for pricing the products. They are classified based on Cost, Competition and Demand.

7.9 ANSWERS TO CHECK YOUR PROGRESS

1. Price
2. Penetration Policy
3. Free On Rail
4. Bid Pricing
5. The Franco Price
6. False
7. True
8. True
9. True
10. True

7.10 QUESTIONS/EXERCISES

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Section A

1. Explain the importance of Pricing.
2. What are the objectives of pricing?
3. Discuss briefly the important types of pricing policies adopted by a company.

Section B

1. Describe the various internal and external factors that influence the pricing strategy of a firm.
2. Discuss the important methods of price determination.
3. Explain the pricing strategies usually adopted by a company when a product travels through the different stages of its life cycle.

7.11 FURTHER READINGS

1. R.S.N.Pillai and Bagavathi, (2007), "Modern Marketing – Principles and Practices", S.Chand & Co. Ltd., New Delhi.
2. S.P.Bansal (2004), "Marketing Management", Kalyani Publishers, New Delhi.
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UNIT 8 PROMOTION MIX

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Structure

8.0 Introduction
8.1 Unit objectives
8.2 Promotion Mix
8.3 Process of Communication in Marketing
8.4 Promotion Strategies
8.5 Advertising
8.6 Personal Selling
8.7 Sales Promotion
8.8 Kinds of Sales Promotion
8.9 Effectiveness of Sales Promotion
8.10 Publicity
8.11 Word of Mouth Information
8.12 Telemarketing
8.13 Key terms
8.14 Summary
8.15 Answers to Check Your Progress
8.16 Questions/Exercises
8.17 Further Readings

8.0 INTRODUCTION

The marketing mix activities of product, planning, pricing and distribution are performed mainly within a business or between a business and the members of its distribution channels. However, through its promotional activities, a firm communicates directly with potential customers. Promotion, the fourth component of a company's total marketing mix, is essential in modern marketing. Basically, promotion is an attempt to influence. The purposes of promotion are to inform, persuade and remind prospective customers about a company and its products. The present unit deals with the various forms of promotion such as personal selling, advertising, sales promotion, publicity, etc.

8.1 UNIT OBJECTIVES

- To understand the importance of promotion mix in marketing of goods and services

- To discuss the process of communication in marketing
- To examine the various promotional strategies
- To appreciate objectives of sales promotion
- To discuss the various kinds of sales promotion
- To evaluate the effectiveness of sales promotion
- To appreciate the significance of publicity and word of mouth information
- To suggest the uses of telemarketing

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8.2 PROMOTION MIX

The purpose of promotion is to reach the desired consumers and persuade them to act. Promotion is responsible for awakening and stimulating consumer demand for the product. In broader sense, the term promotion encompasses all selling activities such as advertising, personal selling, sales promotion and public relations. Promotion Mix refers to the combination of personal selling, advertising, sales promotion and other forms of promotion. Thus, Promotional Mix is an organization's combination of personal selling, advertising, sales promotion, public relations, and publicity to help in achieving its marketing objectives. An effective promotional mix is a critical part of virtually all marketing strategies. Product differentiation, market segmentation, trading up and trading down, and branding all require effective promotion.

8.3 PROCESS OF COMMUNICATION IN MARKETING

The Communication is the verbal or non-verbal transmission of information between someone wanting to express an idea and someone else expected or expecting to get that idea. Because, promotion is a form of communication, much can be learned about structuring effective promotion by examining the communication process. The process of communication has two divisions, explicit and implicit. Explicit communication means the use of language that is verbal. Implicit communication is in the nature of non-verbal communication, i.e., understanding a message through symbols. Basically, a communication process requires only four elements: a message, a source of the message, a communication channel and a receiver. But to be more elaborate, the communication process is of the following stages.

8.3.1 Sender: At the first stage the source originates the communication. The person is a sender of the message. For example, the marketing executive communicates the idea or information to his subordinates.

8.3.2 Encoding: The information that the sending source wants to share must first be encoded into a transmittable form. In marketing, this means changing an idea into words, pictures, or some other form such as a sample. Encoding refers to converting the idea to be communicated into a message form, i.e., the idea is translated in a language (explicit) or medium of expression (implicit) suitable for transmission.

8.3.3 Communication Channel: The message carrying the idea flows or moves from the source towards the receiver by print media or sound wave.

8.3.4 Decoding: Once the message has been transmitted through some communication channel, the symbols must be decoded, or given meaning, by the receiver. The received message may be what the sender intended or something else depending on the recipient's knowledge and experience.

8.3.5 Receiver: The receiver receives the decoded messages and acts as per the message received. It is the largest of the communication.

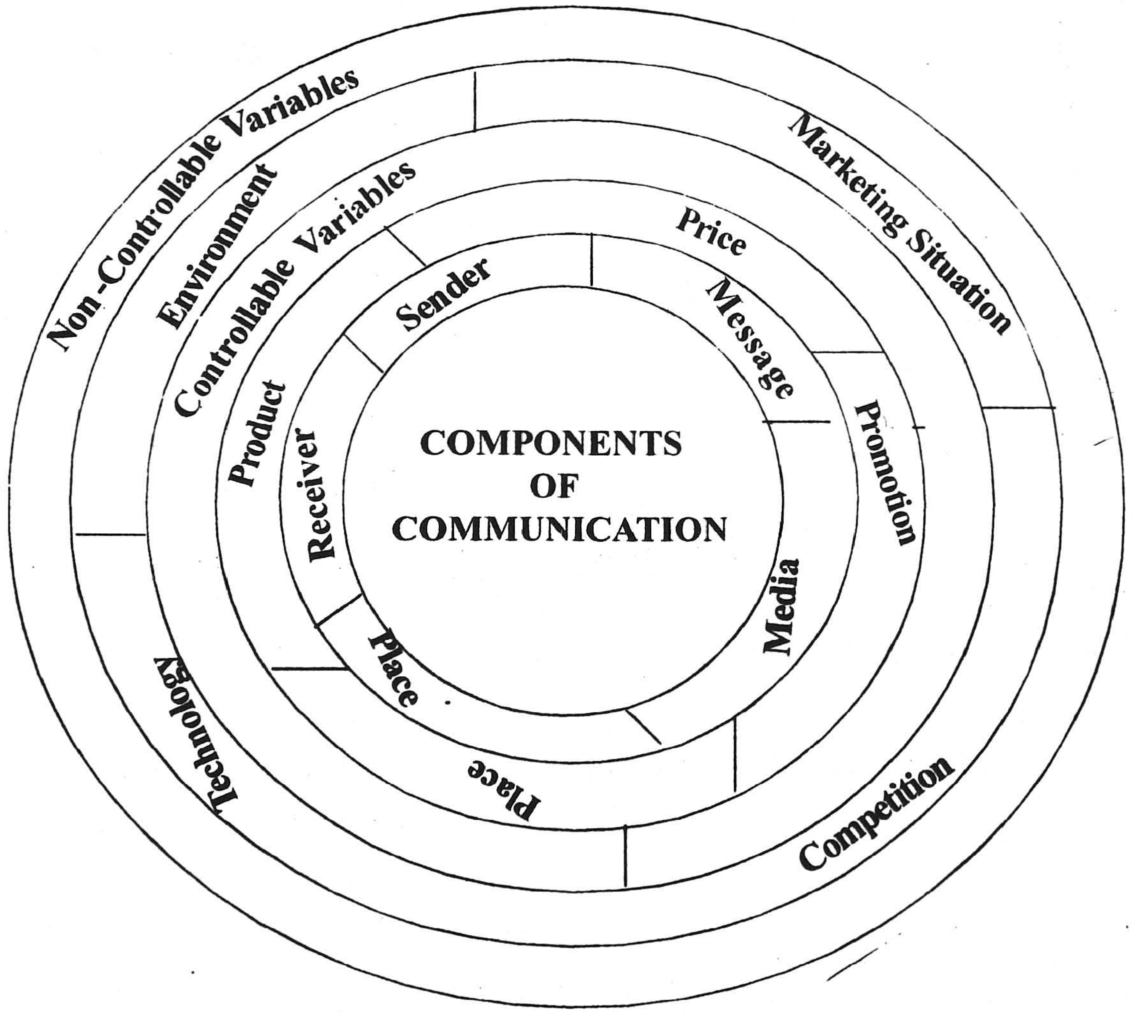
8.3.6 Response: If the message has been transmitted successfully, there is some change in the receiver's knowledge, beliefs or feelings. As a result of this change the receiver formulates a response. The response could be non-verbal, verbal or behavioural.

8.3.7 Feedback: The response serves as feedback, telling the sender whether the message was received and how it was perceived by the recipient. Through feedback the sender can learn why a communication failed and how to improve future communication.

8.3.8 Noise: All stages of the process can be affected by noise, i.e., any external factor that interferes with successful communication.

The figure 8.1 illustrates these components of a communication process and relates them to promotion activities.

Fig.8.1 Communication Process in Marketing



8.4 PROMOTION STRATEGIES

For each component of promotional mix, management sets objectives, determines policies and formulates strategies. These promotional strategies are blended together to be known as "Promotional Blend". A company's personal selling, advertising and other promotional activities should form a coordinated promotional program within its total marketing plan. To be effective, promotional activities must also be coordinated with product planning, pricing, and distribution, the other marketing mix elements. Promotion should also contribute to a firm's overall strategic plan. Designing an effective promotional mix involves a number of strategic decisions.

8.4.1 Factors influencing the Promotional Mix Strategies

The following four factors should be taken into account when determining the promotional mix:

a) Target Market

As in most areas of marketing, decisions on the promotional mix will be greatly influenced by the audience or target market. At least four variables affect the choice of a promotional method for a particular market. They are readiness to buy, geographic scope of the product, type of customer and concentration of the market.

b) Nature of the Product

Several product attributes influence promotional strategy. The most important are unit value, degree of customization and presale and post sale service. A product with low unit value is usually relatively uncomplicated, involves little risk for the buyer and must appeal to a mass market to survive. If a product must be adapted to the individual customer's needs, personal selling is necessary. Products that must be demonstrated, for which there are trade-ins, or that require frequent servicing to keep them in good working order lend themselves to personal selling.

c) Stages of the Product Life Cycle

Promotion strategies are influenced by a product's life cycle stage. When a new product is introduced, prospective buyers must be informed about its existence and its benefits, and middlemen must be convinced to carry it. Thus, both advertising (to consumers) and personal selling (to middlemen) are critical in a product's introduction stage. At introduction stage, a new product may also be something of a novelty, offering excellent opportunities for publicity. Later, if a product becomes successful, competition intensifies and more emphasis is placed on persuasive advertising.

d) Funds available

Regardless of what may be the most desirable promotional mix, the amount of money available for promotion is the ultimate determinant of the mix. A business with ample funds can make more effective use of advertising than a firm with limited financial resources. Small or financially weak companies are likely to rely on personal selling, dealer

displays, or joint manufacturer-retailer promotions. Lack of money may limit the options a firm has for its promotional effort.

e) Pricing Strategy

Pricing strategy influences the promotional mix strategy. If the brand is priced higher than the competition, more personal selling is needed to get a middleman to stock and push the brand. If the brand is priced lower, little promotion is needed.

f) Distribution Strategy

Companies fighting more through distribution for establishing their brand, invest more money on personal selling and advertising. Companies which have already established their brand in the market have to invest only a small amount in personal selling and advertising. If the product is sold directly to the consumers, the method to be adopted is personal selling. If the product passes through a longer channel of distribution, the marketer gives more importance to advertising and less importance to personal selling.

8.4.2 Types of Promotion Strategies

It is understood that the producers aim their promotional mix at both middlemen and end users. A promotion aimed primarily at middlemen is called a push strategy and a promotion program directed primarily at end users is called a pull strategy.

a) Push Strategy

A push strategy calls for using the sales force and trade promotion to push the product through the channels. The producer aggressively promotes the product to wholesalers, wholesalers aggressively promote the product to retailers and the retailers aggressively promote the product to consumers. Using a push strategy means a channel member directs its promotion primarily at the middlemen that are the next link forward in the distribution channel.

b) Pull Strategy

With a pull strategy, promotion is directed at end users – usually ultimate consumers. The intention is to motivate them to ask retailers for the product. The retailers, in turn, will request the product from wholesalers, and wholesalers will order it from the producer. In effect, promotion to consumers is designed to "pull" the producer through the channel. This strategy relies on heavy advertising and various forms of sales promotion such as premiums, samples or in-store demonstrations.

8.4.3 Forms of Promotion

The five forms of promotion are advertising, personal selling, sales promotion, public relations and publicity. Each has distinct features that determine in what situations it will be most effective.

a) Advertising

Advertising is impersonal mass communication that the sponsor has paid for and in which the sponsor is clearly identified. The most familiar forms of advertising are broadcast

(TV and Radio) and Print (newspapers and magazines) media. There are many other advertising alternatives, from direct mail to billboards and the telephone directory yellow pages.

b) Personal Selling

Personal selling is the direct presentation of a product to a prospective customer by a representative of the organization selling it. Personal selling takes place face to face or over the phone, and it may be directed to a middleman or a final consumer.

c) Sales Promotion

Sales Promotion is demand-stimulating activity designed to supplement advertising and facilitate personal selling. It is paid for by the sponsor and frequently involves a temporary incentive to encourage a purchase. Many sales promotions are directed at consumers. However, the majority are designed to encourage the company's sales force or other members of its distribution channel to sell its products more aggressively. The important sales promotion activities are contests, trade shows, in-store displays, rebates, samples, premiums, discounts and coupons.

d) Public Relations

Public relations encompass a wide variety of communication efforts to contribute to generally favourable attitudes and opinions toward an organization and its products. Unlike most advertising and personal selling, it does not include a specific sales message. The targets may be customers, stockholders, a government agency, or a special-interest group. Public relations can take many forms, including newsletters, annual reports, lobbying, and sponsorship of charitable or civic events.

e) Publicity

Publicity is a special form of public relations that involves news stories about an organization or its products. Like advertising, it involves an impersonal message that reaches a mass audience through the media. But several things distinguish publicity from advertising. Organisations seek good publicity and frequently provide the material for it in the form of news releases, press conferences, and photographs.

8.5 ADVERTISING

The word 'advertising' comes from the French word 'adverts' which means to notify. In simple terms advertising means public announcement. The American Marketing Association had defined advertising as "any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor". From this definition it is clear that -

(i) Advertising is paid for by a sponsor who expects to induce some kind of action on the part of the reader or listener that will be beneficial to the advertiser. Technically speaking, if it is not paid for by the sponsor it will be termed 'publicity' and not advertising.

(ii) It is non-personal in the sense that advertising messages visual, spoken or written, are directed at a mass audience, and not directly at the individual as is the case in personal selling.

(iii) Advertisements are identifiable with their sponsor originator which is not always the case with publicity or propaganda.

To sum up, advertising is the impersonal communication of ideas of goods and services to a mass audience by an identified, paying sponsor.

There is a significant distinction between advertising and an advertisement. The advertisement is simply the message, itself. Advertising is a process-it is a programme or a series of activities necessary to prepare the massage and get it to the intended market. The important objectives of the advertising are given below:

1. To build primary demand.
2. To introduce a price deal.
3. To inform about a product's availability.
4. To build brand recognition or brand preference of brand insistence.
5. To inform about a new product's availability 0" features or price.
6. To help salesman by building an awareness of a product among retailers.
7. To create a reputation for service, reliability or research strength.
8. To increase market share.
9. To modify existing product appeals and buying motives.
10. To increase frequency or use of a product.
11. To inform about the number or quality of retail outlets.
12. To increase the number or quality of retail, outlets.
13. To build the overall company image.
14. To effect immediate buying action.
15. To reach new areas or new segments of population within the existing areas and
16. To develop overseas markets.

8.5.1 Advertising Media

The channels through which the advertising message is conveyed to the public are called advertising media. There are different advertising media. The Selection of the media depends on various factors such as area to be covered, type of buyers to be approached, cost involved etc. The message should reach the people effectively, arouse their interest and turn the dormant wants into potential wants.

a) Newspapers

Press advertising refers to advertising in newspapers, magazines and journals which are read by a large number of people. It is the most common medium in advertising.

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Advertising in daily newspapers offers the following advantages

a) As an advertising medium newspapers are flexible and timely

b) Newspapers have extensive coverage

c) They reach a large number of people at a low cost

d) The advertisements can be adopted to local, social and economic conditions

e) Advertisements can be made within a few hours notice. Similarly, advertisements can be cancelled within a few hours notice.

f) To try at an excellent medium for try-out campaigns

g) The advertisement can be repeated several times

h) They enable they copy to be charged frequently

However, advertising in daily newspapers has the following disadvantages.

a) The life of newspapers advertisement is very short because the time the papers remains with the reader is short.

b) It has a poor attention value unless it is a full page advertisement, it may become either lost or buried easily.

c) All newspapers do not generally accept coloured advertisements. Hence consumers are not able to identify the product.

d) There is little selectivity as it reaches prince and pauper alike. Unless a product is purchased by a cross section of the population newspaper advertisement may be quite expensive.

b) Magazines

Advertising in magazines and periodicals offers the following.

Advantages:

a) They are an excellent medium when a high quality of printing and colour is desired in an advertisement.

b) Through the use of class magazines, an advertiser is able to reach a selective audience with a minimum of waste in circulation.

c) They have a longer life than newspapers.

d) They are often stored for reference and therefore advertisements in them are remembered longer.

Disadvantages:

a) Comparatively circulation of magazines is limited. This makes advertisement costlier.

b) Magazines are mostly read by the upper income group and they miss the lower income group.

c) Magazines go to the press weeks in advance. Last minutes changes in the advertisement copies are not possible.

d) The cost is very high. Cost of photographic blocks, illustrations etc, is rather very high.

c) Outdoor advertising

This includes posters, vehicular advertising, field signs, electric light signs, sky advertising etc., and has the following.

Advantages:

a) Outdoor advertising has a long life and in that sense has a repetitive effect.

b) They are a powerful eye-catching medium. They demand little reading efforts and consumes less time.

c) It is easy to localise the appeal.

d) It is excellent for the remainder type of advertising.

e) Certain types like posters can be big and permit the use of colour and attractive pictures to catch the attention of the passerby.

Disadvantages:

a) Great details cannot be given as they are generally noticed when passing by

b) Obtaining national coverage through this medium is relatively costly.

c) It is expensive to change the messages frequently

d) Sometimes, it causes safety hazards and accidents.

e) It is generally difficult to measure the effectiveness of this type of advertising.

d) Advertising Literature

This form of advertising includes the use of leaflets, catalogues booklets, circular letters, brochures and advertising literature sent directly through the mail.

Advantages:

a) The advertiser has greater control over this medium than on other media.

b) It constitutes the most selective of all forms of media.

c) Waste in circulation is eliminated by careful selection of the names of person to whom Ft is sent.

d) Longer messages can also be sent at relatively lower cost.

e) Confidential messages can also be sent which is not possible in the case of other media.

Disadvantages:

a) Many may not care to see the literature and even throw it away.

b) The life is generally short and cannot be controlled.

c) Compiling and updating the mailing list presents its own problems and involves cost

d) Postal delays in deliveries can also hurt the timing of the message.

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e) Radio Advantages

It offers the following advantages

a) Radio is an important medium of advertising especially in developing countries.

b) Radio has great geographical flexibility

c) Radio is the chcapest and effective medium of mass communication

d) Apart from crossing space and literacy barriers, it provides a unique opportunity to the advertiser for getting his product brand name and message right inside the home and the directly at the house wife.

e) Current development can be incorporated.

Disadvantages:

a) The main drawback of radio advertisement is that its message is less permanent than a printed one. Constants repetition is needed to drive home an advertising appeal.

b) It is incapable of supplying visual identification.

f) Television

This is the latest and fast growing of all major media to advertising. The potentialities of television are greater than those of radio.

Advantages:

a) to makes its appeal, through both the eyes and the ears

b) Products can be demonstrated as explained.

c) It is the most versatile one.

d) It offers considerable flexibility in terms of geographical coverage and in terms of the time the message is presented.

Disadvantages:

a) It is the most expensive medium.

b) It does not lend itself to long advertising copy nor does present pictures as magazines do.

c) In developing countries, television advertisement gets only a limited coverage, because relatively few communities have adequate facilities for telecasting.

d) The message is not permanently recorded.

g) Film advertising .

Now film advertising has become popular in India. Film, advertisements are screened when the public are likely to be in a receptive mood just before the beginning of the actual cinema. These pictorial presentations can cut across even language barriers. This medium brings to demonstration of these use of the products to the notice of the audience. Though the cost involved is high it is a means of bringing the message directly to a large number of 'persons. In cinema theatres screen slides also are effectively used as valuable medium advertising.

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h) Display

When goods are suitably arranged and displayed they appeal to the eyes of the public. Such appeals influence their vision and leave a lasting impression in their minds. Thus their dormant desires are being shaped into active or potential desires and ultimately make them to buy the products. The three main attractions to the customer's eye are (a) the shop sign (b) the window display (c) the interior display. Attractive window display is a very vital factor in effecting sales. Window displays sell more than what they cost. Display also acts as a service to the consumers. It is also enhances the prestige of the business house.

i) Exhibition

Exhibitions are usually organised and run with a view to familiarising people with the whole range of products produced by the manufacturers. It is also useful to the producers to advertise their products through stalls and pavillions.

j) Direct Mail

Direct Mail, also known as direct marketing, is the most personal and selective of all media. Direct mail is pure advertising. It is not accompanied by editorial matter. Therefore, a direct mail ad must attract its own readers.

8.5.2 Advertisement Copy

Advertisement copy has to be prepared, after the selection of media. As James Hunter puts, "the aim of advertising copy is that it shall be seen, read, the messages conveyed and then acted upon". Hence an advertisement copy should be prepared with much care.

The money spent on advertisement would go waste, if it does not draw the attention towards it or fails to arouse any interest.

The nature of the copy usually depends on [a] the product to be advertised, [b] class of customers [c] type of media and [d] objects' of advertisement. The advertisement copy should fulfill its objective. They person who drafts and prepares the copy must have full knowledge of its use. He should not exaggerate and give false details. He should tell only the truth, that too in brief.

The copy must be written from the readers point of view. Precision and brevity should be maintained carefully. In short, it should be logical enough to impress. A good advertisement copy shall have the following characteristic features:

a) Attention value b) Suggestive value c) Memorising value d) Conviction value e) Sentimental value f) Educational value g) Instinctive value.

a) Attention value

The most important feature is that is much attracting the attention of those for whom it is meant. Their attention can be drawn in many ways Advertisements should be put at prominent places. Bold and beautiful types may be used in advertisement with a view to catching the eyes of prospects. Suitable pages should be selected for newspaper

advertisement e.g., Glaxo-D or Viva may be advertised on sports pages. Full page advertisement in popular magazines serves the purpose thoroughly.

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Important slogans or catchy phrases may be used to draw the attention of the reader. A slogan may be as exhortation as, "Help us to help you" issued by the Indian Railways. Catchy slogans such as "bigger bank serves the smallest man" and "whitening strikes with RIN" never fail to attract the attention of the readers.

Suitable pictures, photographs or sketches can be successfully used in this regard. The proverb, "one seeing is worth a thousand telling" indicates immense attention value of a picture. For e.g., Lux Toilet soap is advertised along with the photograph of film heroines. Advertisement of textile clothes usually carries the photographs of handsome men and or beautiful ladies suitably.

b) Suggestive value

When once the advertisement copy is able to attract the attention of the readers it should be able to suggest to them the advantages and uses to which the product may be put. Simple but repeated slogans will go a long way in the connection. The suggestion "Cut! Burns! Quick! Get Burnol" can never be forgotten. Many producers have given such effective slogans.

c) Memorising value

The copy should be so drafted that it may have a lasting impression upon the minds of the readers. For this, as stated earlier slogans, catch phrases, photograph or pictures should be used. They may not serve the purpose unless they are repeatedly advertised to create memorising value. Sale letters or catalogues can be sent to the prospects frequently so that they leave a lasting impression upon their minds.

"An antiseptic ointment" is the headline of an advertisement. Below it is shown a motor driver who has burnt his fingers while setting his car right on a journey. Such an advertisement may induce almost many who drive to keep a burnol to meet situations.

d) Conviction value:

The copy should contain convincing arguments with regard to the products. Arguments like the following will serve this purposes, a) your body need 23 vital foods Milk gives 9, com plan given all of 23 including protein, vitamins and minerals, b) Anacin i) Relieves pain ii) Reduces Fever iii) Calms nerves iv) Fights Depression. Another way of convincing is to announce an award to any who is able to disprove the merits of the products advertised.

e) Sentimental value

Every one of us has some sentiments or feelings towards various matters. These sentiments refer to the personal attitudes of individuals towards men and materials. An advertiser should make an attempt to satisfy the sentiments of as many prospects as possible. When an advertisement is meant for educated and cultural people this must be kept in mind vividly, because, educated and cultural people are more sensitive and sentimental.

f) Educational value

The object of modern advertising is not to keep up the existing demand but also to extend it in short, its primary object is demand creation. The advertisement copy should educate the people in the use of new products or in new uses of the same product. It will create demand and further extend it.

The Reader's Digest carried an advertisement supplement in the name of Guide to family health and hygiene. It contained the cause and curse of certain diseases along with the advertisements of the related products. Many advertisements of the Tata's highlight their achievements in the context of national development.

g) Instinctive value

Every human being is a bundle of different instincts. Human restricts are purely psychological issues.

The advertiser should try to appeal to instincts inherent in men and women. Some examples with regard to this are given below.

The appeal to saving instinct may be aroused by banks and insurance companies such as

Security is a lovely feeling. Security is saving with the Indian Bank.

The paternal instincts may be touched upon for goods meant for children- "Glaxo builds Bonny Babies".

8.5.3 Advantages of Advertising

Advertising creates demand for the goods; increased demand expands production by modern means and methods which ultimately reduce the cost of goods. It is beneficial to manufacturers, retailers and also to consumers at large. It advantages are explained below:

1. The increase in demand caused by advertising stimulates production by improved means and method this improves quality and also reduces the cost per unit of goods.

2. Continues advertising remains a constant remainder of the existence of the particular goods or Services.

3. Advertising tends to stabilise the selling price and thereby creates confidence in the minds of the public.

4. Salesmanship is a slow and expensive method of pushing goods to individual consumers. Advertising serves the mass and comparatively it is a less expensive method.

5. Through advertising, the improvements made in the products are made known to the public quickly and easily.

6. Advertising makes possible mass production. Advertising acts as stimulus to mass selling and which again acts as stimulas to mass production.

7. Mass production again leads to reduction of cost per unit.

8. It ensures better quality of the products. The various advertisements speak about the quality of the products in writing. In actual use, if the consumers do not find those qualities

the demand for those goods will go down. Hence, advertisements should act as guarantees of quality.

9. It has got educative values. It acts as an information service and educates the consumer. It makes it possible for the consumers to know exactly their wants and where to get the relevant goods. Thus it gives a wide choice to consumers.

10. New products can be better marketing through advertising.

11. Mail order business can be carried out only by advertising.

12. It carries good will. It popularises the name of the manufactures. Reputation and popularity are very significant in successful business.

8.5.4 Advertisement Policies

The management in making advertising decisions follows certain general guidelines; these are known as advertising policies. The most basic advertising policy decision, of course, relates to whether the company should advertise at all. Some of the companies decide on "no advertising". In that there is not need for other advertising policies.

Top management generally delimits the scope of the advertising effort. It allows a limited amount of institutional advertising.

Commonly, management does not encourage the advertising company drawing a comparison. Many companies are unwilling to mention the advertising competitors. Individual companies participate in industry wide advertising known as "horizontal co-operative advertising". This is common when there are a number of industries. Whether or not a given company should participate in industry advertising depends on such factors as the significance of competition from products of other industries, co-operative effectiveness of its own advertising and its "normal" share of the market.

Another common policy relates to the use or non use of "vertical cooperative" advertising. Here the company shares the cost of the advertisement with its middlemen. Manufacturers use this co-operative advertising to stimulate middlemen. Others use co-operative advertising to get dealers to pay part of the costs, to get dealers to stock the products by using the offer of co-operative advertising as "bait" to secure local advertising media rates etc.

Advertisers have their own policies concerning the advertisement. Some advertisers firm upon the use of "humour" in advertisement. Others insist upon the use of positive appeals, strictly forbidding the use of negative appeals.

8.5.5 Advertising Organisation

To facilitate the work to be done in as advertising programme many organizational arrangements are made. This job is carried over by a separate advertising department in the company itself. Some companies handover the whole task to an advertising agency. Some other companies make use of both the advertising agency and their own department.

Advertisement management is inside the company. Advertising activities are sometimes carried on by the department which operates the sales force. This is common when

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advertising is relatively unimportant or when the firm is small. Advertising actives are managed by a separate department in large business. Here the head of he department should report to the marketing manager. In some companies the top advertising executive reports directly to the President or General Manager. The advertising department performs all the tasks involved in planning and executing the advertising campaign. Determination advertising policy and formulation of advertising executive is expected to involve actively in the advertising campaigns. The advertising manager is held responsible for the success or failure of the advertisement.

8.5.6 Advertising Agency

An advertising agency is a group of experts on various phases of advertising and related marketing areas. It is an independent company' set up to render specialized services with regard to advertising. They are independent companies and are not "agents" ad the term suggests.

Services rendered: They offer a broad range of marketing and advertising services. They plan and execute the entire advertising 'companies. They are also responsible for producing the entertainments well as commercial in radio, cinema screen, TV. etc. The advertising agencies with their thorough knowledge about the products and the industry are becoming marketing agencies.

There are several reasons for company getting the service of an advertising agency when it has a good advertising department, (1) Company does not have specialists as the agencies have. (2) An agency can give their company an objective outside view point. The agency's representatives can give their frank opinion of the product which a company advertises finds it difficult to succeed Company can benefit from the agency's experiences with ifs many products and clients (4) Agency feels a greater pressure than the company own department for effective results.

The two methods of compensating advertising agencies are be commission method and the fee method. The commission method is the traditional and still most widely used method of compensating advertising agencies. An agency receives an amount equal to 15% or the cost of the media, time or space. Some agencies have replaced the commission system entirely with a fee arrangement.

8.5.7 Advertising Strategy

An advertising strategy is aimed to achieve advertising objectives and should be consistent with existing advertising policies. Advertising decisions should be made within an appropriate policy frame work so as to determine advertising's role in overall marketing strategy. Advertising strategy formulation requires management "to size up" the extent of the advertising opportunity through analysis of different aspects of the particular marketing situation (product, market distribution, promotion and pricing).

a) Demand Expansibility: If demand can be created through advertising alone, it is said to be 'expansible'. A product is said to have an expansible demand means advertising

results in greater sales. To create a primary demand (Le. demand for a type of product such as tape recorders) on a profitable basis, then demand must be expansible. For the profitable stimulation of selective demand an expansible demand is not necessary because selective demand advertising may win over customers from competing brands. Still nonusers of the particular brand may be influenced to buy that particular product.

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b) Brand differentiation: One of the difficulties that the management faces is making the brand differentiation. This is very important because there are a number of brands for the same product. So the management should note the difference and similarities of their demand and of the competing brands and try to prove that their brand is superior to the other. They should try to furnish selective advertising appeals. If advertising is to succeed in developing brand preference, there must be brand differences of substantial importance.

Buyers can detect some brand differences through use, but not others. For example, a cake mix manufacturer or a sweet mix manufacturer say Lakshmi Gullab Jamun provides careful direction both of the package and in its advertising to ensure that the end result is an acceptable cake or jamun. They give specific instruction for preparation in a certain way. For other products, say for example cosmetics, one cannot get quick result. For this they have to convince buyers of the integrity of the firm itself or of the endorsements of the public figures or expert. Advertising can be exploited profitably there are some important brand differences.

c) Stage in the product life cycle: Advertising will be effective only if the management recognises the stage in the product life cycle. In addition to the product life cycle, there should be a stimulation of primary demand.

So, a company after introducing a new product concentrates on stimulating primary demand. As the product gains acceptance, the company changes over to advertising designed to stimulate selective demand. For most products in the market maturity stage and for some in the market decline stage, much advertising effort is directed towards retaining present customers. Usually "retentive advertising takes the form of reminding" past buyers to buy the brand.

d) The product and the consumers' needs and wants: Marketing must have long recognised that if a product will not sell without advertising, it will not sell at all. A product to sell must appeal and satisfy some needs and wants of some consumers. No advertisements, however, effective are capable of making the people to buy things they do want. But it may help them to rationalise purchase of products.

e) Pricing aspects: The final buyer should consider the advertised item worth the price at which it is offered for .sale. Its price should represent reasonable value in the final buyers mind. Advertising cannot persuade the final buyer to pay what he considers an unreasonable price. Still ultimate consumers feel more confident when they buy advertised brands though higher price them the unadvertised products.

The advertisers in trying to find out advertising opportunity should try to find out whether the potential buyers have needs or wants that th9ir products is capable of satisfying. They should also find out whether the needs are strong. Considerable advertising opportunity exits, if there are strong needs or wants for the product.

Consistent product quality and service must be maintained by the manufacturer of the advertised brands to secure and retain consumer confidence. If the advertised brand has additional advantages, then the price of the advertised brands can exceed the unadvertised brands. Consumer will be ready to pay this additional advantage, provided they find the product difference. If the advertised brand has no important difference its price-can not be higher than those of its competitors.

f) Distribution aspects: To attain maximum effectiveness in advertisement, consumers must be able to find stores that carry the brand. It should achieve proper distribution considering, the time the consumers are willing to spend looking for the product. Distribution should be widespread if consumer will spend only a little time- in looking for the product. Its distribution can be selective, if they spend only a little time in looking for the product. Its distribution can be selective, if they spend considerable time in searching for the product Company strategy on distribution intensity should be closely correlated.

g) Middlemen's co-operation: Dealers have to carry sufficient stocks to meet increased demand resulting from advertising. In order to prevent out of stocks the manufacturer should see to it that the dealers know of the anticipates sales increase before the advertising appears. The sales force is responsible for securing and maintaining needed co-operation. It is also very important to co-ordinate the advertising and personal selling efforts effectively.

8.5.8 Advertising expenditure

The management, after formulating its advertising strategy, will turn its attention towards advertising expenditure. First of all, it has to decide whether the company can afford to spend on this head (Generally, all companies wilt have an appropriation for this). If the answer is 'no' then its advertising strategy is readjusted so that the costs involved therein agree with what the company can afford to spend. Sometimes, there will not be enough money even after such readjustment to support an advertising effort arid in that case, it is better not to advertise at all and it can concentrate in other proportional methods. Secondly, the management has to decide whether the sales resulting from the advertisement are immediate or deferred If advertising results in quick sales, then the advertising expenditure can be recovered shortly; if its return is expected to come after a considerable period, then deliberate thinking and larger outlay are necessary for the appropriation. Companies with short working capital will prefer the former (viz. like to quick sales) but better financed companies will have strategies to produce either quick or deferred sales or both. However, companies used to have different types of appropriation, an account of the fact they are able to find out the effectiveness of advertising correctly. Generally, the following methods are followed in making the advertising appropriation.

(a) Percentage of sales approach: This is a traditional method under which an arbitrary percentage of past sales or forecasted sales or combination of both sum is set apart to spend on advertising. It assumes that the advertising cost of advertising expenditure will change according to the stage of the products life cycle. Besides appropriation is the made basing on past sales records and there is no guarantee that it will hold good in future.

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(b) Objective and task approach: Under this method taking into consideration the (i) objectives of the company in terms of desired sale volume, net profits etc, and (ii) time and advertising space needed to achieve these objectives the amount required for advertising estimated and appropriated.

Some other methods like "Residual of previous year's surplus' "matching competition adverting" "percentage of anticipated turn over" "tax per unit of product" etc, is also followed by different companies.

8.5.9 Evaluation of Advertising Programme

Critics of advertisement in the same sense denounce advertisement as a waste of money and also a device to brain wash the innocent customers into buying what they do not want. Though great studies have been made to improve advertisement much still remains to be done Advertisement should be made more effective and better ways to evaluate this effectiveness should also be found. Advertisements should be tested in order to find which advertisements are better and also why they are better.

Management is influenced to appropriate all their expenditures carefully for these reasons; (1) Shrinking profit margins and (2) increasing competition, both domestic and foreign. Top executives want to know whether the money they spend on advertising does pay. That is the main reason for measuring advertising's effectiveness.

A company is confronted with many limitations while trying to measure the effectiveness of advertising. Advertising is not the only means that promotes sales. So the company is unable to identify the effectiveness of any given advertisement or even an entire campaign.

8.5.10 Measuring Advertising Effectiveness

The measurement of advertising effectiveness begins with the precise statement of advertising goals. For advertising results to be measurable the goal must be expressed in terms of magnitude and time and it must be capable of being measured. The methods for gathering data may be classified as survey, experimental, laboratory and historical methods.

a) Surveys

Surveys may be condoled by the advertiser or the agency. Telephones, personal interview and mail survey may be used to measure the effects of advertising on brand awareness, attitudes, brand choice, probability of buying and actual purchase. When the same respondents are measured several times over a period of weeks or months, it is possible to track the effect of advertising on specific psychological dimensions, such as awareness. Such a survey design is known as a panel.

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b) Experiments

To establish a cause-and-effect relationship between advertising effort and some change in the buyer, it is necessary to control the conditions of advertising exposure. This requires some form of experimental design. The simplest is a group design, where by one group is measured before the advertisement and the other measured after exposure. A comparison of the two measures indicates the effectiveness of the advertisement.

c) Laboratories

Laboratories are frequently used to test advertising effectiveness for new products. This method is cheaper than test markets and it keeps a new product or advertising strategy a secret while it is being tested.

d) Historical data

A variety of method is available for testing advertising effectiveness by analysing historical data the goal of campaign was to generate traffic in the show room, simple courts of customers will prove measure of productivity.

Econometric methods have been used to analyse the effect of advertising on sale (Econometrics the science of estimating and testing economic models).

e) The measurement of recall

If the advertising objective is to communicate information then the recall method is appropriate. Recall is also usefu to measure when copy testing. Recall studies are capable of measuring several dimension of advertising effectiveness essentially; the method employed is to ask the respondent to reconstruct what he or she can remember having seen or heard advertised, either unaided or aided.

f) Attitude surveys

A favourable attitude towards a company or its product nearly always precedes a decision to buy. Attitude measurement may consist of a general assessment or be restricted to various dimensions of a specific brand.

g) Psychological measurement

Psychological techniques are designed to probe deeper and reach to the sub-conscious mind. Physiological techniques have limitations. Their execution and interpretation require great care.

h) Sort and court

Many advertisements contain an invitation to interested parties to write into the advertiser for further information, free samples etc. By sorting and counting the requests generated by such advertisements, the advertiser can obtain much useful information at low cost.

Advertising as a tool may be used or abused. We should not confuse advertising with advertiser. It only depends on the standard that the advertiser maintains. He can make a good use of it or use it to achieve his own ends in a wrong way. If it is directed towards

anti-social ends advertising may be harmful and socially undesirable. The society will be benefited, if it is properly used.

8.6 PERSONAL SELLING

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The two terms 'personal selling' and 'salesmanship' are used synonymously. But actually there are some vital differences between these two terms.

The American Marketing Association defines the term personal selling as "Oral presentation in conversation with one or more prospective purchasers for the purpose of making sales".

Personal selling involves direct interaction between marketer and customer. Personal selling is an important part of promotional programmes. It is supported by advertising. Personal selling consists of individual personal communication in contrast to the mass impersonal communication of advertising. Personal selling is done by salesman. It also takes several forms such as sales call by a field representative and assistance by a sales clerk. It can be used for many purposes such as creating product awareness, arousing interest, developing product preference etc.

Salesmanship is one of the skills used in personal selling. Advertising is also described as 'salesmanship in print' and it utilises non-personal presentation Salesmanship in the process that persuades a person to buy goods or services. In salesmanship,. the art of personal persuasion is employed by the sales people. The art of salesman ship consists of one human mind influencing another human mind.

Salesmanship is an ability to remove ignorance, doubt, suspicion and emotional objection concerning the usefulness of product.

8.6.1 Classification of Salesmanship

Canfield classifies salesmanship into three categories:

a) Demand filling salesmanship or order taking salesmanship:

Demand filling salesmanship is one in which the buyer initiates the sale. He knows needs" decides about the product that wm satisfy his needs and also knows about products of ITS supply. In such purchases, to help is taken from the salesman. Cheap articles and series are thus purchased by the buyers.

b) Creative salesmanship:

Creative salesmanship is one in which the initiative is taken by the salesmen. He searches out the customers, recognises their needs, creates a demand for it and convinces the buyer that the product will satisfy his needs. Here the salesman does not sell but creates the urge to buy.

c) Professional salesmanship:

Professional salesmanship is most highly developed and evinces an established and accepted code of ethics, a set of standards for admission and disqualification and

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recognise that service to other comes before self interest. It establishes a link between the buyer and seller and through which benefits in the form of comfort, convenience, safety or satisfaction are given to them.

8.6.2 Types of Salesman

These are several methods of classifying a salesman's job. The most popular form of classification is by the type of employer the salesman represents. Accordingly there are three:

1. The manufacturer's salesman
2. The wholesaler's salesman
3. The retailer's salesman

a) Manufacturer's salesman:

Manufacturer's salesman sell either directly to consumers (or users) or the middlemen. Manufacturer's salesman may be classified into three types.

i) Promotional salesman or Pioneer salesman:

Manufacturer's salesman engaged in creating market for new product, unknown to wholesalers, distributors and dealers are called pioneer Salesman. Pioneer Salesman has to convince the wholesalers and retailers about the usefulness and suitability the new product.

ii) Dealer servicing salesman:

This type of manufacturer's salesman sells products to wholesalers, retailer or distributions Products sold by dealer servicing salesman has ready and established market, His job is to retain and expand the market already created. For this purpose he calls in the middlemen at regular intervals and books orders. Thus his main job is to keep the established group of wholesalers and dealers well served.

iii) Specialty Salesman:

A salesman required to sell speciality goods must have imagination and perseverance as the salesman ship involved is highly creative. A speciality article is generally of high price, is irregular from the point of view of time of purchases and involved personal selection on the part of the purchaser. A speciality salesman is thus one who specialises in selling a product or service as against the salesman who sells a line of products.

b) Wholesaler's salesman:

Before an article reaches the hands of the consumer goes through a number of channels of distribution; the main channels being the wholesalers and retailers. A salesman employed by a wholesaler must call on his customers, who are retailers, at regulate intervals. The catalogue would normally contain numerous types of articles, sometimes running in thousands of items. He may not be required to sell any particular type but it is his job to see that the retailers are promptly and accurately supplied with their requirements. He must give a fair and equitable treatment to his customers. He may be asked to act as a collection agent for his manufacturers.

c) Retailer's Salesman:

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Retailer's salesmen are appointed to sell goods to the ultimate consumers. They are the two types: (a) counter salesman and (b) outdoor salesman. Counter salesman works in the retailer's shop and sells to the customers who come to the shop to buy products they need.

Outdoor salesman goes to the prospective customers rather than the customers coming to them as is the case with the counter salesman. They carry samples of goods with them; pursued customers to buy goods of the firm represented by them and book order. Only retail houses operating on large-scale can afford to employ outdoor Salesman.

Sometimes salesmen may be divided on the basis of the products and services which they may be called upon to sell. Thus there may be a category of salesmen who sell tangible goods. These salesmen sell products which can be seen, felt and handled physically. Another category of salesman may be engaged in pushing up the sales of certain intangible which relate to the mind.

8.6.3 Fundamentals of Successful Salesmanship

Salesmanship is a highly skilled profession and like any other profession demands a very high degree of proficiency in its practice. There is an analogy between competitive sports and salesmanship. As in competitive sports go in salesmanship there are certain rudiments which have to be mastered. Some fundamentals in selling; must be learnt and mastered for best results. An intelligent salesman combines the study and actual practice of these principles by an intelligent analysis and improvement of defects. In course of time, the use of the important fundamentals becomes a habit for the salesman.

The most important requisites of fundamental successful salesmanship are explained below.

1. The salesman personality.
2. Knowledge of the goods.
3. Knowledge of one's company, its philosophy and its policies.
4. Knowledge of the customer and their buying motives.
5. Knowledge of the techniques of selling goods.

a) Salesman Personality:

The first thing that impresses that prospect is the personality of the persons selling the goods. A repulsive salesman may very much drive the customers away while a charming cheerful salesman not only attracts customers but wins also them over permanently for the organisation. The salesman's job requires some distinct Qualities of head and heart and appearances Sales personality is the total of everything about a salesman which makes his impression upon the customer. Personality can be produced and improved by developing qualities and traits that are positive and not negative. Every positive characteristic has its corresponding negative aspect. For achieving success in the vocation positive qualities should be developed and the negative ones removed. The positive qualities to be developed

in order to increase and improve the salesman's personality are tact, courtesy, kindness, courage, confidence, honesty, unselfishness loyalty, cheerfulness and good health. The corresponding negative qualities should be avoided because of the following factors: 1) indiscrimination, 2) discourtesy, 3) harshness 4) cowardice, 5) fear, 6) dishonesty, 7) selfishness, 8) disloyalty, 9) gloominess and ill health.

Some of the important traits which ought to be developed by a salesman to achieve success are.

1. physical traits;
2. mental traits;
3. social traits; and
4. character traits.

Salesman's job differs widely. What is expected in promotion salesman is considerably different from what we expect from a dealer servicing salesman. Further, mere assessment of one's personality against the requirement of the job is not enough. The salesman should be conscious of his weakness and must constantly endeavour to overcome them Salesmen are not nomithey are created by systematic and regular training.

b) Knowledge of the goods:

A salesman must acquire a complete and useful knowledge of the goods he is required to sell. Prospects expect a through knowledge of the product from the salesman. Today, the buyers are so much bewildered by the variety, type, design, nature and functions of new products which have flooded the market. Hence they have to bank upon the salesman for a proper guidance and advice. Salesman has not only to guide and advice them but has also to satisfy their curiosity about the utility of the product and remove their suspicious objections, and apprehensions. Besides, a salesman without technical knowledge becomes a danger to the customer. He has to substitute guesswork for knowledge and can at the most repeat like a parrot the claims made by the manufacturers of his product. If the salesman acquires product knowledge, he will be able to answer questions raised by his customers. Even a single question answered is sufficient to create a doubt in the mind of his customer.

Some of the important things which a salesman should know about his product are:

Manufacturing details include the constituent parts and methods of manufacture. The salesman should know, what goes into the manufacture of the product the quality of raw material, labour, arid technique; how the product is manufactured-the nature of process stages and their compositions; where the product is manufactured the location of the factory or factories to know the sources of supply etc.

He should know what that product is - its design, type, colour, size, composition etc. What uses it could be put to- alternative uses and the suitability of the product in each case; how it is to be used-the method of use and precautions in use.

Distribution policies pursued by his company to sell the products, i.e. channels through which the goods are made available, the terms and conditions of sales delivery; and the sales promotional activities undertaken by the company to support selling efforts etc. The knowledge of these aspects of the product will make sales presentation more specific and effective.

The following are some of the methods of acquiring knowledge, namely -

1) Personal experience;

2) Reading in libraries;

3) Trade journals;

4) Consulting seniors;

5) Discussing with fellow salesman;

6) Studying advertisements; and

7) Taking advantage ('If manufacturer's assistance and literature such as;

Sales manual, sales bulletin, salesman's portfolio, visit to factories, meetings and conferences, motion pictures and visual aids, personal training schemes, correspondence courses questionnaire system and traveling demonstrators.

c) Knowledge of the company:

When the modern salesman sells, he not only sells the product but also his company, its prestige, reliability, friend lines achievements, long standing accessibility and experience. He must know his company, its history and development, the man who is responsible for its success, the standing of the company in the trade, its progressiveness and other facts. Is it profit or service which motivates the organisation? He should know what are the distributive policies of his organisation, especially policies relating to the minimum quantities to sell, the rates of discount to allow, the period of credit to grant, the quality of goods to stock, the prices to charge the nature of services to render? Further, he should know the policy for the sales promotion being pursed by the company. When, where and how the goods are to be advertised what is going to be keynote and the campaign of advertisement and how is it going to be supported by other sales promotion activities?

d) Knowledge of the customers:

The success of salesmanship depends largely upon the capacity of the salesman to size upto the propect quickly and correctly, to motive him rightly and satisfactorily and to win him permanently and positively. Therefore, knowledge of human nature as it is only through adequate knowledge and appreciation of the role of psychology I" selling that salesman can establish good human relations with his customers. Hence a salesman should understand the following points what motivates the buyer to buy; what is the nature and requirement of the customer; and how to deal with different types of customers.

By the term "buying motivates" is meant the feelings, thoughts emotions and instincts which arouse in the customers a desire to buy, and article. There are a number of buying motives

i.e. influence or consideration which provide the impulse to buy and induce action, or determination choice in the purchase of goods and services. The number of buying motives is many add varied. The following are the important buying motives.

1. fear,

2. profit,

3. vanity

4. pride,

5. fashion,

6. sex or romance,

7. love or affection for other,

8. physical well-being or health,

9. comfort and convenience,

10. curiosity and,

11. habit

Some of these motives overlap to certain extent. The details of these buying motives have already been discussed in lesson 7, Motives are divided for convenience into rational or emotional motives. Rational motives are based on reasoning of motives on judgement. Irrational or emotional motives, on the other hand, are based on feeling or passions.

In addition to the above motives, it will not be out of place to consider the motives, which actuate the customer in buying his requirements from one particular shop, store or organisation rather than from another. These motives may be described as patronage motives. The choice of a particular organisation depends on certain factors.

1. location,

2. nature of goods sold,

3. reputation,

4. attitude of salesmen,

5. the services offered by the store and

6. The stores appearance.

Just as persons buy with different motives, there are also different types of customer each requiring a specialised types of persuasion. The selling process and the sales talk must therefore be adjusted to suit the particular type of customer. According to the nature, a customer may be (a) an extrovert or an introvert. An extrovert is social, cheerful, talkative, and cordial. He avoids arguments injuring the feelings of other, likes to be appreciated and often acts impulsively. An introvert who is reserved suspicious, sensitive reasoning, curious and calculative.

On the basis of the behaviour, the customers may be classified as:

1) Silent;

2) Talkative:

3) Argumentative;

4) Disbelieving or suspicious;

5) Undecided, hesitating, deliberate or practical,

6) Impulsive;

7) Handicapped;

8) Ill-mannered or rude;

9) Favoured treatment;

10) Independent;

11) Dependent;

12) Aggressive or nervous;

13) Straight forward:

14) Friendly;

15) Impatient; and

16) Pompous; vain or snob

A salesman should always try to understand the customer's point of view, never countermand him bluntly. If he does not agree with the customer's point of view, he should not start arguing his case. He should be patient and appreciative and put his case gently and persuasively. Further he should remember that customer is always right. He should treat the customer as a guest. He should treat the customers in the way expected to be treated.

As for the treatment of different types of customers, the sales man is well advised to analyse and appreciate their basic characteristic and deal with them according to the requirements of the situations.

e) Knowledge of the technique of selling:

There are a few important principles of selling which the salesman should learn. The salesman should see that the prospect is well attended to. He should try to understand the requirements of his customer well. He must always be prepared to help the customer and for his he should inculcate necessary confidence in him. While suggesting items to meet the customer requirements, he must ensure that his need is suitably met.

8.7 SALES PROMOTION

The term "sales promotion" s used in a specific in marketing. According to the American Marketing Association, sales promotion includes all "those marketing activities other then personal selling, advertising, and publicity that stimulate consumer purchasing

and dealer effectiveness, such as display, shows, exhibitions, demonstration, and .various non recurrent selling efforts, and in the ordinary routine".

Sales promotion activities are essentially aimed at increasing sales. They are undertaken in addition to the basic methods of demand creation through advertising and personal selling. Sales promotion activities aim at supplementing and coordinating personal selling and advertising.

Figure 8.2 Levels of sales promotion

Dealer's level	Consumer's level	Salesmen's level
Sales meetings	In-store demonstrations	Sales meetings
Contests	Premia	Sales manuals
Dealer Gifts	Samples	Product
POP material	Coupons	Demonstrations
Trade Shows & Exhibition	Trading Stamps	Contests
Business Catalogues	Direct mailing	Sales Bulletins

8.7.1 Difference between Advertising and Sales Promotion

1) Except for direct mailing advertising deals with media owned and controlled by others, while sales promotion tries to inform and persuade groups through tools and methods controlled by the Company it self.

2) Sales promotion deals with non - recurring and non - routine matters, in contrast to advertising and persona; selling.

3) While most companies could not exist profitable with lit advertising or personal selling" they could do without sales promotion.

8.7.2 Objectives of Sales Promotion

The main objectives of sales promotion are:

- To increase the sales and encourage the present consumers to use more frequently
- To attract new customers by means of incentive campaigns or contests
- To increase the sales efforts of dealers and sales personnel
- To help the new products enter into existing and new product
- To help stabilize a fluctuating sales trend
- To capture the major share of the market
- To recover loss in sales and reduce the perception of risk associated with the product buying

- To build up sufficient inventories and motivate the dealers to keep adequate stocks, display goods prominently, use point of purchase displays and persuade customers to buy the promoter's brand
- To remove the customers' dissatisfaction
- To create brand image and build buying habit which leads to brand loyalty of the potential customers
- To bridge gap between advertising and personal selling
- To motivate and attract the sales force and get their cooperation by exhibiting their products in the important retail markets
- To establish and maintain communication with large market segments
- To simplify the job of middlemen
- To meet the competition of other firms
- To improve the manufacturer-dealer relationship

NOTES

Check Your Progress

I Fill in the Blanks:

1. Creating new markets for an old product or a market for a new product requires————.
2. Advertising, sales promotion and personal selling are the elements of ————.
3. An exchange of message from sender to receiver which could be oral, written, personal or public, using words, figures, symbols, or combinations thereof is known as ————
4. AIDAS stands for ————.
5. Visual expression of the idea of the creator of an advertisement is called ————.

8.8 KINDS OF SALES PROMOTION

Sales promotion methods may be studied under three heads:

1. Consumer promotions
2. Dealer promotions
3. Sales force promotions

8.8.1 Consumers Promotions

Sales promotion directed at consumers may be undertaken either-

(i) to increase the product's use among the existing consumers or

(ii) To attract new customers to the product, or

(iii) to retaliate against a competitor's sales activities, or

(iv) to reduce a seasonal variation in sales

Consumer promotions may take the following forms.

(a) Free samples

Free samples are distributed to ultimate consumers; with the unit value of the article is low. Free samples attract consumers easily. Therefore, it is suitable for introduction a new product. But it is very expensive.

(b) Bonded offers

This type of promotion takes two forms:

(i) The use of an existing and well-known brand to 'carry' free samples of another noncompeting product or both products may be produced by the same firm. For example, Surf powder and Lux soap have the dual advantage of increasing sales of the carrying brand while securing trial of the carried brand.

(ii) Two-for-the-price-of-one

(c) Coupons

A coupon is a certificate that entitles the consumer to get a specified saving on the purchase of a specified product. These coupons are usually issued by the manufacturers either directly by mail or through retailers. This is less expensive when compared with the other two mentioned above.

(d) Premium offers

There are three main varieties of premium offer.

(i) Free gifts

This may be contained in the package like plastic animals in breakfast cereals or the pack itself, as is the case with instant coffee packed in storage jars. A basic advantage of these promotions is that they encourage a collecting habit and so achieve extended trial as the consumer builds up the collection.

(ii) Free - send away premium

This type of promotion offers a free gift in exchange for proof of purchase of the product. This approach has greater appeal, to the retailer than those promotions which require him to stock "give away".

From the promoters' angle an added advantage is that many people but the product intending to send off the premium but in fact never do.

(iii) Self -liquidating Premium

In this, the company offers the product at a significant discount on its normal retail price to those customers who send money along with proof of purchase.

e) Contests

This is a popular device used for brand promotion. An opportunity is provided for consumers to participate in a contest or game with changes of winning catch prizes, free air tickets or goods.

8.8.2 Dealer or Trade Promotions

Dealer promotions are introduced to induce the dealers to keep a larger stock of the manufacturer's product these include:

a) Buying allowance

This is offered to the dealers to induce them to buy and store a new product of the manufacturer certain percentage on price is deducted on each minimum quantity' of the product purchased during a certain period.

b) Buy back allowance

This method is intended to prevent a post-deal sales decline. Under this method the manufacturer offers a certain amount of money for additional new purchases based on the quantity of purchases made on the first trade deal.

c) Display and advertising allowance

This is to compensate the dealer for space given for the display of the manufacturers' product.

d) Premiums

Premium may be offered to dealers or their salesman based on sales result, as an incentive for extra effort.

8.8.3 Sales Force Promotions

These are intended to improve the efficiency of the sales force of the manufacturer. These may take the following forms:

i) Incentive bonus may be paid to the sales force if the sales exceed specifies limits.

ii) Contest may be arranged among the members of the sales force.

iii) Frequently sales meetings, salesmen's conventions and conferences may be arranged.

8.9 EFFECTIVENESS OF SALES PROMOTION

Evaluating the effectiveness of sales promotion is much easier and the results more accurate than evaluating the effectiveness of advertising. For example, responses to a premium offer or a coupon with a specified closing date can be counted and compared to a similar period when there were no premiums or coupon offered. It is easier to measure sales promotion because:

a) Most sales promotions have definite starting and ending points: Coupons must be redeemed by a certain date. Contest entries must be submitted before a particular deadline. Contests for the sales force include only the sales made during a specified period. This is quite different from advertising, where there can be significant residual effects and the results of one campaign may overleap another.

b) Most sales promotions are designed to impact sales directly: It is more difficult to measure a change in attitude or an increase in information about a product or brand than it is to count sales.

However, there are some pitfalls in measuring sales promotion effects. First, not all sales promotion meet the conditions just mentioned. For instance, training given to a distributor's sales force may be valuable, but may not produce immediate results. Second, current sales promotion results may be inflated by sales "stolen" from the future. That is, a sales promotion may get buyers to act now when they would have bought the product in the future anyway. An indication of this cannibalizing effect is a lower level of sales after the promotion ends compared to before the sales promotion began. Third, any attempt at measurement must take into consideration external conditions such as the behaviour of competitors and the state of the economy. A firm's market share may not increase following an expensive sales promotion, for example, but the promotion may have offset the potentially damaging impact of a competitor's promotional activity.

8.10 PUBLICITY

Publicity is any communication about an organization, its products or policies through the media that is not paid for by the organization. Publicity usually takes the form of a news story appearing in a mass medium or an endorsement provided by an individual, either informally or in a speech or interview. This is good publicity. There is also, of course, bad publicity – a negative story about a firm or its product appearing in the media. In a society that is increasingly sensitive about the environment and in which news media are quick to report mistakes, organizations tend to focus on this negative dimension of publicity. As a result, managers are so concerned with avoiding bad publicity that they overlook the potential of good publicity. There are three means for gaining good publicity.

- Prepare a story and circulate it to the media - The intention is for the selected newspapers, television stations, or other media to report for the information as news.
- Personal communication with a group - A press conference will draw media representations if they feel the subject or speaker has news value. Company tours and speeches to civic or professional groups are other forms of individual-to-group communications.
- One-on-one personal communication, often called lobbying – Companies lobby leg-isolators or other powerful people in an attempt to influence their opinions, and subsequently their decision.

8.10.1 Benefits of Publicity

Publicity can help to accomplish any communication objective. It can be used to announce new products, publicise new policies, recognize employees, describe research breakthroughs or report financial performance – if the message, person, group or event is viewed by the media as newsworthy. The other benefits of publicity are:

a) Lower cost than advertising or personal selling: Publicity usually costs less because there is no media space or time costs for conveying the message and no sales people to support.

b) Increased readership: Many consumers are conditioned to ignore advertising or at least pay it scant attentions. Publicity is presented as editorial material or news, so it gets greater readership.

c) More information: Because, it is presented as editorial material, publicity can contain greater detail than the usual advertisement. More information and persuasive content can be included in the message.

d) Timeliness: A company can put out a news release very quickly when some unexpected event occurs.

8.10.2 Demerits of Publicity

a) Loss of control over the message: An organization has no guarantee that a news release will appear in the media. In fact, only a small proportion of all the news releases a firm

prepares are ever used. In addition, there is no way to control how much or what portion of a publicity release the media will print or broadcast.

b) Limited exposure: The media will typically use publicity material to fill space when there is a lack of other news and only use it once. If the target audience misses the message when it is presented, there is no second or third chance. There is no opportunity for repetition as in advertising.

c) Publicity is not free: Even though there are no media time and space costs, there ar expenses in staffing a publicity department and in preparing and disseminating news releases.

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8.11 WORD OF MOUTH INFORMATION

Word of mouth is a reference to the passing of information from person to person. Originally the term referred specifically to oral communication (literally words from the mouth), but now includes any type of human communication, such as face to face, telephone, email, and text messaging. Word-of-mouth marketing, which encompasses a variety of subcategories, including buzz, blog, viral, grassroots, cause influencers and social media marketing, as well as ambassador programs, work with consumer-generated media and more, can be highly valued by product marketers. Because of the personal nature of the communications between individuals, it is believed that product information communicated in this way has an added layer of credibility. Research points to individuals being more inclined to believe WOMM than more formal forms of promotion methods; the receiver of word-of-mouth referrals tends to believe that the communicator is speaking honestly and is unlikely to have an ulterior motive (i.e. they are not receiving an incentive for their referrals). To promote and manage word-of-mouth communications, marketers use publicity techniques as well as viral marketing methods to achieve desired behavioral response. Influencer marketing is increasingly used to seed WOMM by targeting key individuals that have authority and a high number of personal connections. Marketers place significant value on positive word-of-mouth, which is traditionally achieved by creating products, services and customer experiences that generate conversation-worthy "buzz" naturally. The relatively new practice of word-of-mouth marketing attempts to inject positive "buzz" into conversations directly. Word-of-mouth effects in the life cycle of cultural goods have been mathematically modeled. With the increasing use of the Internet as a research and communications platform, word of mouth has become an even more powerful and useful resource for consumers and marketers.

Check Your Progress
State whether the following statements are true of false
6. Personal selling is a mass communication.
7. The communication process of choosing symbols that convey thoughts is called decoding.
8. Recognition Test is a post-test for measuring advertising effectiveness.
9. Newspaper is an indoor advertising media.
10. Advertising used to offset or minimize the impact of a competitor's promotional program is called defensive advertising.

8.12 TELEMARKETING

Telemarketing (known as telesales in the UK and Ireland) is a method of direct marketing in which a salesperson solicits to prospective customers to buy products or services, either over the phone or through a subsequent face to face or Web conferencing appointment scheduled during the call. It is also called telephone selling. It refers to a sales person initiating contact with a shopper and closing a sale over the telephone. Telemarketing may entail cold canvassing from the phone directory, or it may rely on prospects who have

requested information from the company or whose demographics match those of the company's target market. Many products that can be bought without being seen are sold over the telephone. Many firms have used telephone selling for decades and some sales representatives regularly contact customers by mail or phone. Telemarketing is the innovative use of telecommunications equipment and systems as part of the "going to the customer" category of personal selling.

Telemarketing not only comes in a survival zone for an individual but it is at the peak of the zone in today's business. It is useful in various industries and business such as Hotel, Finance, Telecom, Banking etc. The scope of telemarketing is widening at the rate of 70 percent every year and is spreading in many countries like a virus. The countries which are more into the business of telemarketing are US, UK, Canada and India. There are many reasons for why telemarketing is hitting today's market, some of them are optimum utilization of resources, minimization of cost, providing employment at large level, using technology and time saving. Telemarketing is growing because:

a) Many buyers prefer it over personal sales calls in certain selling situations and

b) Many marketers find that it increases selling efficiency.

Buyers placing routine reorders or new orders for standardized products by telephone or computer use less of their time than in-person sales calls. Sellers face increasingly high costs keeping sales people on the road; selling by telemarketing reduces that expense. Also, routine selling by telemarketing allows the field sales force to devote more time to creative selling, major account selling, and other more profitable selling activities. Telemarketing can be done at national as well as international level which means services can be outsourced to the countries abroad reasons being cheap labour, low capital investment and many others. The business of telemarketing is not a science which can be learned from the books but is an art where the basic important thing is to have skills, no doubt at higher level the skill varies. That is because in order to do telemarketing an individual not only needs telemarketing skills but also needs skill of management like Planning, Organizing, Controlling and very important decision making.

This is one industry which is spreading its wings everywhere as telemarketing is not only considered to be making outbound calls but also inbound, web-based and BPO's and also making lots of money for everyone. Telemarketing also has many of its disadvantages but those disadvantages can be swept under the carpet as compared to the advantages what it brings.

Telemarketing can also include recorded sales pitches programmed to be played over the phone via automatic dialing. Telemarketing has come under fire in recent years, being viewed as an annoyance by many. Telemarketing may be done from a company office, from a call centre, or from home. It may involve either a live operator or a recorded message, in which case it is known as "automated telemarketing" using voice broadcasting. "Robocalling" is a form of voice broadcasting which is most frequently associated with political messages. An effective telemarketing process often involves two or more calls.

The first call (or series of calls) determines the customer's needs. The final call (or series of calls) motivates the customer to make a purchase.

Prospective customers are identified by various means, including past purchase history, previous requests for information, credit limit, competition entry forms, and application forms. Names may also be purchased from another company's consumer database or obtained from a telephone directory or another public list. The qualification process is intended to determine which customers are most likely to purchase the product or service.

Charitable organizations, alumni associations, and political parties often use telemarketing to solicit donations. Marketing research companies use telemarketing techniques to survey the prospective or past customers of a client's business in order to assess market acceptance of or satisfaction with a particular product, service, brand, or company. Public opinion polls are conducted in a similar manner. Telemarketing techniques are also applied to other forms of electronic marketing using e-mail or fax messages, in which case they are frequently considered spam by other people.

Telemarketing has been negatively associated with various scams and frauds, such as pyramid schemes, and with deceptively overpriced products and services. Fraudulent telemarketing companies are frequently referred to as "telemarketing boiler rooms" or simply "boiler rooms." Telemarketing is often criticized as an unethical business practice due to the perception of high-pressure sales techniques during unsolicited calls. Telemarketers marketing telephone companies may participate in telephone slamming, the practice of switching a customer's telephone service without their knowledge or authorization.

There are many advantages and disadvantages of telemarketing. Telemarketing is a somewhat stressful career choice. It really depends on what type of telemarketing that you do. Collection call telemarketing can be one of the worst telemarketing jobs that you can have. No matter which path of telemarketing you take you will run into a lot of rude people. Everybody knows that people do not like to get interrupted by telemarketers at home.

8.13 KEY TERMS

- **Promotion Mix**

  Promotion mix refers to specific combination of promotional methods such as print or broadcast advertising, direct marketing, personal selling, point of sale display, merchandising, etc., used for one product or a family of products.

- **Sales Promotion**

  Sales-stimulation achieved through contests, demonstrations, discounts, exhibitions or trade shows, games, giveaways, point-of-sale displays and merchandising, special offers, etc.

- **Advertising**

  Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

- **Personal selling**

  Personal selling is face to face selling in which a seller attempts to persuade a buyer to make a purchase.

- **Publicity**

  Publicity is a type of promotion that relies on public relations effect of a news story carried usually free by mass media.

- **Telemarketing**

  Telemarketing is contacting, qualifying, and canvassing prospective customers using telecommunications devices such as telephone, fax, and internet.

8.14 SUMMARY

Promotion is the element in an organisation's marketing mix that serves to inform, persuade, and remind the market of a product and/or the organization selling it, in hopes of influencing the recipients' feelngs, beliefs or behaviour. The important forms of promotion are personal selling, advertising, sales promotion, public relations, and publicity. Promotion is a form of communication and effective promotion can be structured by examining the communication process. Sales promotion consists of demand-stimulating devices designed to supplement advertising and facilitate personal selling. Publicity, a part of public relations, is any communication about an organization, its products or policies through the media that is not paid for by the organization. Telemarketing refers to a sales person initiating contact with a shopper and closing a sale over the telephone.

8.15 ANSWERS TO CHECK YOUR PROGRESS

1. Creative Salesmanship
2. Promotion Mix .
3. Communication Process
4. Attention, Interest, Desire, Action, Satisfaction
5. Advertising Layout
6. False
7. False
8. True
9. True
10. True

8.16 QUESTIONS/EXERCISES

Section A

1. What are the features of salesmanship?
2. What are the advantages of personal selling?
3. What are the important features of an advertisement copy?
4. Explain the steps in preparing an advertising copy.
5. Explain the process of communication in marketing.
6. What is Promotion Mix? Discuss the various elements of promotion mix.
7. What are the objectives of sales promotion?

Section B

1. Explain the promotion strategies in detail.
2. Discuss the various kinds of sales promotion.
3. What is Publicity? How does it differ from advertising?
4. Discuss the merits and demerits of telemarketing.
5. Discuss the merits and demerits of various sales promotion metnods.

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8.17 FURTHER READINGS

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2. S.P.Bansal (2004), "Marketing Management", Kalyani Publishers, New Delhi.
3. William J.Stanton et al (1994), "Fundamentals of Marketing", McGraw Hill International Editions, New York.

UNIT 9 CHANNELS OF DISTRIBUTION

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Structure

9.0 Introduction
9.1 Unit Objectives
9.2 Channels of Distribution
9.3 Functions of Distribution Channels
9.4 Classification of Distribution Channels
9.5 Middlemen in Distribution
9.6 Wholesalers
9.7 Retailers
9.8 Factors Influencing Choice of Channels
9.9 Intensity of Distribution
9.10 Future of Middlemen
9.11 Key Terms
9.12 Summary
9.13 Answers to Check Your Progress
9.14 Questions/Exercises
9.15 Further Readings

9.0 INTRODUCTION

The systems of economic institutions through which the goods move from the producer into the hands of the users are nothing but the distribution channels. Goods will have no value when they lie in the hands of the manufacturer. They have to be moved from the place of the manufacturer to be place of consumption. The distribution of products is the most essential and powerful element among the elements of marketing mix. Thus, place utility is created by the marketing institutions. It is these marketing channels that also arrange to make the goods available to the consumer when he wants them. Thus, it creates time utility.

9.1 UNIT OBJECTIVES

- To understand the functions of channels of distribution
- To appreciate the role of middlemen in distribution of goods and services
- To highlight the distribution channels available
- To differentiate intensive and extensive distribution channels
- To identify the factors influencing channel choice

- To analyse the future of middlemen

9.2 CHANNELS OF DISTRIBUTION

The channels of distribution keep the goods in their stock duty absorbing the time lag between production and consumption. Besides, marketing channel also arrange for the transfer of title to the goods from the manufacture to the buyer and thereby, creates ownership utility. This does not mean that all other marketing activities are not responsible for the creation of these utilities. In fact, all the efforts of the marketing manager are directed only towards the creation of these utilities. However, goals of the company are achieved only when the goods move through these channels.

Physical distribution is defined as the process of getting the product from the producer to the ultimate consumer. According to American Marketing Association, A Channel of distribution is defined as "the structure of intra-company organization units and extra ordinary company agents and dealers, wholesale and retail, through which a commodity, product or service is marketed".

According to Cundiff and Still, Channel of Distribution is defined as "a path traced in the direct or indirect transfer of title to a product, as it moves from producer to ultimate consumers or industrial users".

Walters C.Glenn defines a channel of distribution as "a team of merchant and agent business institution that combine physical movement and title movement of products in order to create useful assortment for specified markets".

Thus, a channel of distribution is a pathway for the movement of goods and services from the producer to consumer and through intermediaries ensure to perform certain marketing function in order to achieve marketing objectives of a company". A channel of distribution is concerned not only with the physical movement of goods but also with their promotion, selling and marketing control. The major participants in the distribution are producers, intermediaries and consumers.

9.3 THE FUNCTIONS OF DISTRIBUTION CHANNELS

As we have already seen the marketing activities are part of the total social system of a society. It goes without saying that marketing channels render several definite functions to the society. In fact by routinisation of decisions in the distribution process, the cost of distribution is lowered. Financing the entire process for moving the goods from the producer to consumer is another major service accounts to their credit. These institutions take active part in the pricing process. They also act as an intelligence agency in communicating all information about the market to the producer. They not fill up the deficiencies lying on the form of imperfections in our system but also minimize the number of transactions in the system.

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9.3.1 Routinisation of Decisions and lowering cost of distribution

The process of buying and selling or the movement of goods from producer to consumer is made as a simple and routine affair due to the presence of the marketing channels. For instance) if a company introduces and sells out a product, then the company is bound to receive repeat orders if the product, is suitable and fits into the buyers operations. As a result, the total amount of volume realised will be substantial in comparison with the effort exerted to obtain the volume. Similarly, a department store buyer may take a line of merchandise and thereafter he may send his repeat orders just to replenish his inventories. In this situation, the salesman will be visiting only in order to introduce new products or styles. Therefore it is clear that once a channel is established, goods are subject to routine movement with a minimum of middlemen in setting the factory price. Sometimes the establishment and other expenses and a return of profit to these institutions will also be taken into account in deciding the price. In certain instances the retailers may even be given with the option to fix whatever price they feel like fixing it for the product. At times the retailers may even be allowed to sell below cost for promotional purposes.

9.3.2 Financing

In business, finance is a must for every activity, starting from product's inception to .its consumption. Different institutions and individuals finance in different forms on every item of merchandise in existence. In fact many strategies and tactics are involved in shifting the financing function in business among various institutions. We come across with many instances like, certain producers operating within sufficient funds, some manufacturers needing working capital etc and another manufacturer producing a product so that he can earn is profit and reinvest in some other merchandise and there by reducing his risks. So institutions are there to provide this service to the producers. A wholesaler buys the merchandise and pays the sum in a relatively shorter period of time. Intern the wholesaler resells the merchandise to the retailers either for cash or on credit largely and thus renders a valuable financing function to the society. But for this, the producers and retailers have to suffer for want of finance. Sometimes selling agents finance by paying the producer on shipment and then sell the entire output either for cash or on credit.

At the other end of the channel, retailers and banks often finance the consumers in their purchase. Generally, they carry a financial burden running to 45 to 60 days' of sales tie up in the form of accounts receivable. In the absence of them the manufacturer has to shoulder the burden.

9.3.3 Pricing

In marketing management, pricing is a very important decision as it affects sales and ultimately the profits. So, sound pricing policies must be adopted for proper organization and profits. Distributive channels play an important role in fixing the retail price of a manufacturer's product. Often manufacturers consult the middlemen to establish a realistic price for their products. As retailers are in close contact with the customers, they are in a

better position to decide as to what the market will pay for an article than the producer himself. Knowing the importance, the manufacturers usually take into account recommendations regarding retail prices and margins required by the middlemen in setting the factory price. Sometimes the establishment and other expenses and a return of profit to these institutions will also be taken into account in deciding the price. In certain instances the retailers may even be given with the option to fix whatever price they feel like fixing it for the product. At times the retailers may even be allowed to sell below cost for promotional purposes.

9.3.4 Acting as Intelligence agents

Middlemen are the main sources to the manufacturers to get information about the markets. It is on account of fact that presently large manufacturers are so highly centralised that they could not keep in touch with their markets. So middlemen are the mainstream through whom the manufacturers as certain the information about the market. Communication is an effective tool of modern marketing management. These dealers are in constant touch with the customers who are familiar to them and also sensitive to change in demand patterns. The actual requirement, attitudes, tastes, changes in consumption patterns etc., of the consumers are closely watched and necessary information is passed on by the dealers to the manufacturer. In fact, middlemen act as an intelligence agency to the manufacturer in this respect.

9.3.5 Promotional Activities

Middlemen also play an important role in the promotional activities of a company; many displays of merchandise in the store are done by the retailers. In fact, these displays act as a silent salesman at the actual point of purchase in a store. Besides, the retailers also undertake many other responsibilities like advertisement, personal selling promotional activities, etc. Actually they are effective than the producer since the retailers know the customers personally. On account of this reason, basing on the terms of agreement, manufacturer used to bear a substantial portion of the expenditure on display racks, advertisement etc. or a larger margin of profit' is given to meet out these expenses. A good aggressive distributor can sell more merchandise than an average one. That is why certain manufacturers give the agency for their products to some alert and progressive middlemen than to others. In essence, the volume of sales finally obtained largely depends on the promotional activities of the channels through which the products are distributed. In certain instance, the manufacturer will train or work with the middleman's sales force. This is particularly important where the middleman's sales force does not possess the necessary technical knowledge 'of the product. For example, automobile manufacturers provide comprehensive sales aids and training to salesmen and mechanics of the dealers.

9.3.6 Minimise Total Transactions

Middlemen are responsible for reducing the number of transactions as well as lowering the cost of distribution. For example in the absence of middleman assuming that

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5 manufacturers each sold one unit of the merchandise directly to each of 50 users, then 250 separate transactions would have taken place. However, if one middleman is introduced, then each manufacturer would sell 50 units of his product to the middlemen (5 transactions) who in turn would sell the goods to the 50 users (50 transactions). So the total number of transactions in the latter case will be only 55 instead of 250 as in the former. This ultimately will also reduce the cost of distribution as no separate transaction will take place between manufacturers and users.

9.4 CLASSIFICATION OF DISTRIBUTION CHANNELS

The channels of distribution which are also known as trade channels are classified mainly into conventional (non-integrated) and non-conventional (integrated) as below:

Conventional Channels (Non-integrated):

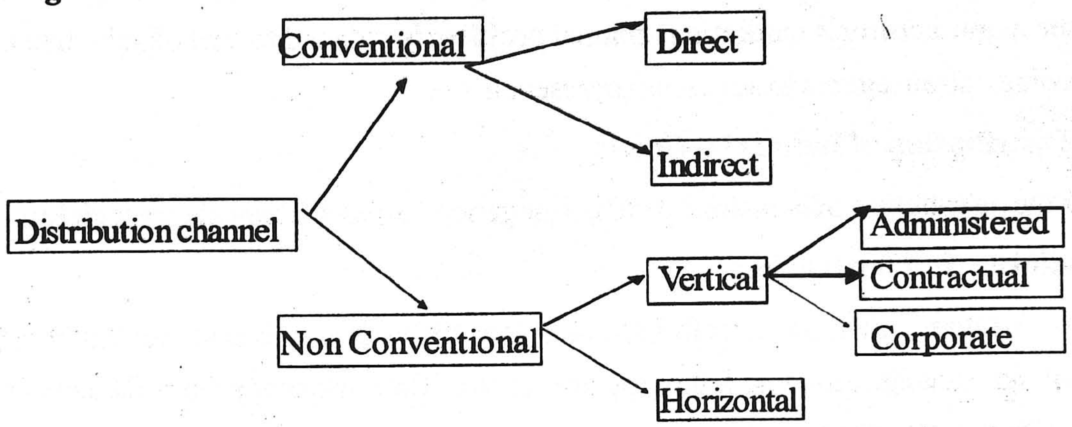
1. Direct Channel of distribution
   - Through opening retail shops
   - Through mail order business
   - Through traveling salesmen
   - Through the marketing of industrial products
2. Indirect Channel of distribution
   - Producer to Retailer to Consumer
   - Producer to wholesaler to consumer
   - Producer to wholesaler to retailer to consumer
   - Producer to agent middlemen to wholesalers to retailer to consumer

Non-Conventional Channels (Integrated):

1. Vertical Channel of distribution
   - Corporate System
   - Administrated Vertical System
   - Contractual Marketing System
2. Horizontal Channel of distribution

Marketing channels vary widely from the simple one employed by a manufacturer to sell his entire output to the consumers, to the long and complex channels employed in moving the farm products from the place of production to market. Five channels are widely used in marketing the consumer goods and four general types of channels are widely used in marketing the industrial goods.

Fig.9.1 Channels of Distribution



9.4.1 Distribution of consumer Goods

a) Manufacture to Consumers

The direct manufacturer to ultimate consumer channel is the simplest channel of distribution with no middleman involved. Many consumer products are marketed in this way. Manufacturer may sell directly through their own retail out lets or on a house to house basis or through mail order departments. As the ultimate consumers are numerous and widely scattered many manufacturers of consumer goods not rely wholly on the producer to-ultimate consumer channel.

b) Manufacturer-Retailers-Ultimate Consumers

This is one of the most common marketing channels used for reaching the consumer market. Here manufacturers to avoid the interference of wholesalers directly sell the goods to retailers. Manufacturers using this channel must be able to finance the inventories that would otherwise be carried by merchant wholesalers. For example Jaya Engineering Company adopts this for the sale of Usha sewing machines and fans.

c) Manufacturer- Wholesalers - Retailers - Ultimate Consumers

This channel is often referred to as the "traditional" or "orthodox" marketing channel for consumer goods. This channel is suitable for a manufacturer who has a narrow product line and who is unable to finance the retailers. Moreover, manufacturers may like to use this channel when the wholesalers are able and willing to provide strong promotional support. Small manufacturers find this channel as the only economically feasible choice.

d) Manufacturer- Agent -Middlemen - Retailer – Ultimate Consumers

Some producers use agent middlemen instead of using wholesalers to reach the retail market. Agent middlemen are used in marketing manufactured products, because they, want to get rid of themselves of the marketing task in case of limited market potentials for a product too his type of channel is used.

e) Manufacturer -Agent - Wholesaler - Retailer - Consumers

In this channel, when manufacturer wants to reach small retailers very often uses agent middlemen who in turn go to wholesalers who sell to small retailers. In marketing

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manufactured products, agent middlemen are used generally, by manufacturers who want' to get rid of themselves of much of the marketing task. The entire output of the manufacturer may be turned over to one or a small number of agent middlemen for marketing in which case the manufacturer's marketing channel problem is reduced to that of selecting and persuading certain agents to act as his representatives.

9.4.2 Distribution of Industrial Goods

For the distribution of industrial goods, four general types of channels are widely used.

a) Producer -Industrial User

The direct, manufacturer to Industrial user channels is used in marketing of many types of industrial goods. The following are some of the reasons for the wide use of this Channel in the distribution of industrial goods. Many industrial products have markets composed of few potential users; some industrial products require special service that the manufacturer alone could provide.

b) Manufacturer - Agent - Middleman -Industrial User

This channel is used by the firms which are not having their own marketing departments. The firm which is desirous of entering into a new market or which wants to introduce a new product in the market may use this channel rather than their own sales force.

c) Manufacturer - wholesaler -Industrial user

Manufacturer of operating supplies-small tools and other standard pieces of equipment are using this marketing channel. These are products of comparatively small unit value purchased by numerous and diverse industrial concerns. Such wholesalers, who sell directly to industrial users, are known to the trade as industrial supply houses, mill supply houses, hardware distributors and other similar titles.

d) Manufacturer- Agent - Wholesaler - Industrial User

This channel is similar to the manufacturer to agent middleman to industrial user, excepting that it uses the services of the wholesalers to reach the industrial user. When the unit sale is to small to sell directly or when decentralised inventories are needed to supply the industrial users rapidly, the storage service of the wholesalers are required.

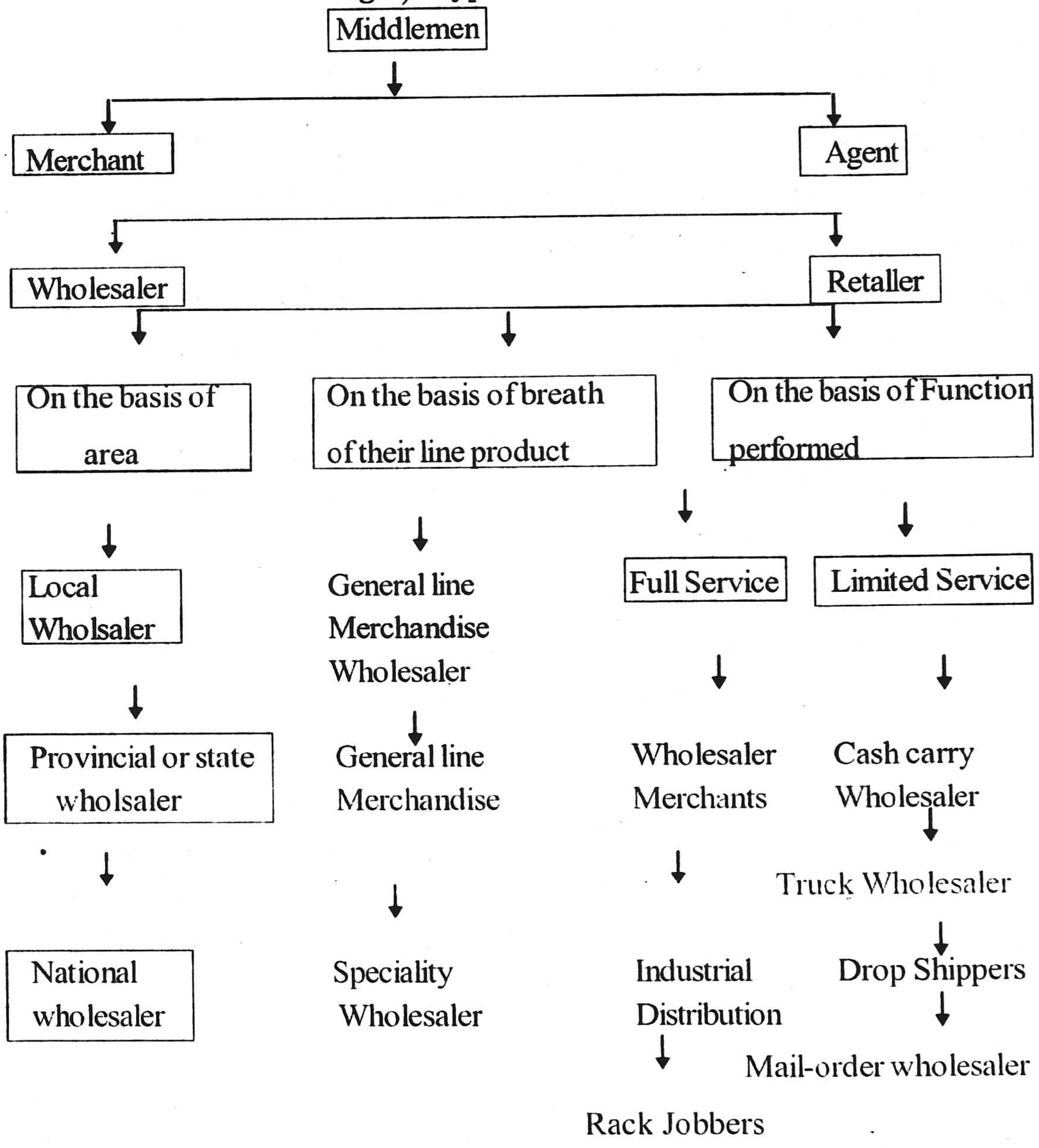
9.5 MIDDLEMEN IN DISTRIBUTION

According to American Marketing Association, Middleman is "one who specializes in performing operations on rendering services that are directly involved in the purchase and sale of goods in the process of their flow from producer to final buyer"

Thus, Middlemen specialise in performing activities that are directly involved in the purchase and sale of goods in the process of their flow from producers to final buyers. Middlemen or business intermediaries act as the connecting link between the manufacturers and consumers. According to Cundiff and Still, "All middlemen fall into two broad

classifications: merchants and agents". A merchant middleman takes title to (buys) and resells merchandise. An agent middleman negotiates purchase or sales or both, but does not take title to the goods in which he deals". Thus, the chief distinguishing characteristic relates to whether the middleman takes title to the goods he handles. If he does, he is a merchant. If he does not, he is an agent. The merchant buys and sells while the agent specializes in negotiating on buying or selling transactions.

Fig.9.2 Types of Middlemen



9.5.1 Agent Middlemen

Agent middlemen are those channel components who negotiate the purchases or sales or both without acquiring the ownership of these goods. They are mostly engaged in wholesale dealing. They assist in negotiating sales or purchase or both on behalf of the seller or buyer. They do not take title to goods which they handle. The important types of agent middlemen are:

a) Sole selling agents

b) Selling agents

c) Commission agents

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d) Brokers

e) Auctioneers

f) Forwarding and clearing agents

g) Warehouse

h) Resident buyers

i) Purchasing agents

j) Factors

a) Sole Selling Agents

Sole selling agents are appointed by the manufacturer to distribute the goods either in conditions when the manufacture does not have its own machinery to market the goods or when the financial position of the product is weak and he does not want to take risk himself. Sometimes, these agents purchase the entire production from the manufacturer and sell it under their own brand name which relieves the manufacturer of the selling botheration. The main advantage of this intermediary is that the manufacturer enjoys the benefit of goodwill established by the sole agents as well as he is saved from botheration and risk of marketing the goods.

b) Selling Agents

Selling agent is an independent middleman. He operates on a contractual basis. He negotiates all sales of a specified line of merchandise or the entire output of its principal. He has authority over the price, terms and other conditions of sales. He is the sole selling agent for the line, he represents. He extends financial help to his principals or manufacturers. Selling agents are in close contact with the buyers, and hence they guide the manufacturers on styling, design and pricing matters. They assist the manufacturers in sales promotion and advertising. Their services are used in the marketing of textiles, food products, coal, timber, metal products, etc.

c) Commission Agents

Commission agent is an agent, individual, firm or company, who negotiates the sales of goods on behalf of his principal on commission basis. He exercises physical control over the sale of goods. He buys and sells the goods at the best possible terms and conditions. The title to goods never passes to him. He performs many important functions like preparation of bills, transport and delivery of goods including granting of credit and collecting the payments and dues from buyers and market investigation.

d) Brokers

A broker is an agent who represents either buyer or seller in negotiation and making contracts for the sale or purchase of goods with having direct physical control of goods. He brings intending buyer and the seller together. Sometimes he is also called seller's salesman because he generally acts for sellers. He arranges for the timely delivery of goods

from the seller directly to the buyer. He receives his commission in the shape of brokerage from his principal for whom he worked.

e) Auctioneers

Auctioneer is the intermediary between the buyer and seller and legal agent appointed by sellers till the goods are transferred to the highest bidder. The goods like car, jewellery, land, building, etc., sold through auction. It is open to the public and time and place known through wide publicity. Auctioneer charges commission in return for his service from the sellers.

f) Forwarding and Clearing Agents

Manufacturers find it difficult to collect, deliver and forward goods to the proper places. Hence, they make use of the packing and forwarding agents. They are employed to collect, deliver and forward the goods to proper destination. Their remuneration is also less. They are expert and prompt in their dealings.

g) Warehouses

As their name suggests they receive goods from or on behalf of the principals for storing purpose. They receive remuneration for the storage. They will take care for the goods which are prescribed by them.

h) Resident Buyers

A resident buyer is an independent agent specializing in buying for principals who are mostly retailers. He operates mostly in lines of trade such as furniture and ready made garments, and he helps the retailers to get the desired products. He gets his remuneration or fee on commission basis. He has his office in the market place.

i) Purchasing Agents

They are independent middlemen who specialize in locating sources of supply for buyers of industrial goods.

j) Factors

Factor is a person who is appointed to sell the goods. He has an implied authority to act in his own name and use his own name on any contract made by him. He exercises his own intelligence to sell the goods. He enjoys the authority to receive payment and give a valid discharge to the buyer for any goods sold by him.

9.5.2 Merchant Middlemen

Contrary to agent middlemen, merchant middlemen are those intermediaries who buy and sell goods on their own account and risk. They take the title to goods. They resell the goods at a profit. They are classified into two categories as follows:

a. Wholesalers

b. Retailers

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a) Wholesalers

A wholesaler is an individual or an organization who is engaged in all those activities involving selling goods or services to parties who buy it for further resale or for business use. The wholesalers create a link between manufacturers and ultimate buyer. They go for a bulk purchasing and breaking the bulk into smaller lots for selling it to buyers for further selling or industrial use.

b) Retailers

Retailer is that merchant intermediary who is involved in selling small portions from large lumps of goods directly to the ultimate consumers for personal and non-business use. The retailer is the last but important link in the chain of distribution that helps to bridge the gap between manufacturer and consumer.

9.6 WHOLESALERS

Wholesalers buy and resell merchandise to retailers and other merchants and to industrial institutional and commercial users, but do not sell in significant amount to ultimate consumers. This definition does not specify that the wholesaler must deal in large size lots nor does it require that the habitually makes sales for purposes of resale. Most wholesalers do sell in large lots but many do not. Similarly, most wholesalers do sell for purpose of resale, but there are also many who sell directly to industrial users. The one essential distinguishing feature of the wholesaler is that he must be a middleman who usually does not sell to ultimate consumers.

The term "wholesaler" applies only to merchant middlemen he takes title to the goods he handles. "Wholesaling middlemen" is an all-inclusive term, covering wholesalers and other wholesaling middlemen, such as agents and brokers, who do not take title to the merchandise. Thus a manufacturer's agent is not a wholesaler, but he is a wholesaling middlemen. Although usage varies from trade to trade, these terms are used synonymously with "wholesaler".

'Let's eliminate the middlemen' and "the middleman makes all the profit" are the cries which have been echoed by many consumers, businessmen and legislators through the years. Typically these people are focusing their complaints on the wholesaling segment of the distribution structure. Hence, many manufacturer and retailers try to eliminate the wholesaler from their trade channels. Yet, wholesalers continue to be an important force and in many case a dominant figure, in the distribution system. Before studying the various types of wholesalers and their role in the channels of distribution, let us try to understand the meaning of the following terms:

9.6.1 Services of Wholesalers

In the process of distribution of commodities the wholesalers perform essential marketing functions. They undertake assembling and buying, transporting, storing, grading,

financing, risk bearing and dispersing. In the process of performing the various marketing functions wholesalers render valuable services to the manufacturers and the retailers alike.

a) Services to Manufacturers

The wholesaler helps the manufacturers by formulating the policy of manufacture according to the demand and assists them in securing the market for their goods. The wholesaler also helps the manufacturer to concentrate on the manufacturing operations by relieving him from botheration of supplying goods in small quantities to the retailers.

He also relieves the manufacturers from the necessity of having sales organisations of their own. This is because wholesalers general have ready selling organisations. Most of the manufacturers are small and have limited financial resources. They can build a good product, but they seek some one to sell it. The wholesalers perform this service. The cost of direct selling from manufacturer to retailer would be prohibitive and even if a manufacturer attempted to direct distribution, retailer would often reject it. In many cases the retailers know and trust the wholesalers as a result of past business dealings. The manufacturer is a stranger and he may not even get a due welcome as extended towards the wholesaler's.

Wholesalers generally enter into forward contracts for supply of goods; with the result the manufacturers do not accumulate heavy stocks. Wholesalers create both place and time utility through their warehousing activities. Manufacturers also benefit from this efficiency of storage particularly manufacturers of seasonal items.

By granting credit to retailers, the wholesaler is indirectly providing financial help to manufacturers. In addition, wholesalers often supply a more direct from of financial aid to producers. Wholesaler will buy in advance of a season or will accept and store several shipments, paying well in advance. Wholesalers also help by generally paying their bills promptly, thus further reducing a manufacturer's capital requirements.

Simply by taking title to the merchandise, a wholesaler reduces a manufacturer's risk. If the product deteriorates, goes out of fashion or for some other reason does not sell, the wholesaler usually bears the burden.

Being in close touch with retailers who in turn are in direct contact with the consumers wholesalers are in a position to advise the manufacturers, as to the changes or alterations which should be introduced in their products.

Wholesalers help in price stabilisation. They stock goods during the slack season and sell them during the period of peak demand. Thus prices are kept steady and violent fluctuations in prices are prevented.

b) Services to Retailers (Services to Customers)

Wholesalers act as purchasing agents for their customers whether they are small retailers or industrial users. The wholesalers determine in advance what his customers want and then he has the merchandise on hand when the customers are ready for it. Wholesalers have a broad knowledge of sources of supply and are able to assemble in one place the products from these different sources. A good wholesaler has trained buyers

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constantly in touch with the appropriate markets who seek out new and better products and acquire other types of market information.

Most of the retail organisations are small and many are located in small towns. A wholesaler can afford to sell to these small scattered retailers because he represents many manufacturers and can carry many items. Consequently he can usually get enough orders to justify his widespread operations. The services rendered by the wholesalers to the retailers can be better appreciated by taking into consideration the position of a retailer in the absence of the availability of the services of the wholesalers.

The wholesaler buys from a manufacturer and resells in small quantities. When carload or truckload quantities are shipped, the transportation costs are computed at the carload or truckload rate. If the manufacturer has to ship in smaller quantities to the retailer, much higher freight rate would be charged. Further many more manufacturers refuse to sell in the less-than-cart-load or less-than-truck-load quantities and many retailers will not buy in large quantities.

Wholesaler enables retailers to share in the economy of transport, storage and packing. Since he usually provides quick and frequent delivery, retailers and industrial users need not carry large inventories. Consequently, their costs are reduced because their investments in inventory, insurance and storage costs are lower.

By enabling retailer to replenish their stocks in small quantities, wholesalers enable to operate their business with lesser amount of capital and derive the benefits of economy in space and more economical use of capital. Further, retailers are relived of the risks of fluctuations in prices, changes in demand style, taste etc. The risk of a retailer is reduced to the small stock held by him.

The wholesaler being an expert in the line he knows exactly from whom he should make his purchases and can obtain the best quality at the most favorable price. In addition, it is the wholesaler who makes it possible for the retailer to offer to the consumer a large variety of lines on a limited stock as well as small capital.

In general, wholesalers aid their customer's financially through open-book credit. They usually offer a cash discount, if the customer pays his bill within a given period of time after the date of invoice or the receipt of goods. If the customer does not pay within the cash discount period, however, he still has several weeks or months depending upon the practices in the trade, before the bill falls due. The financing activities of a wholesaler end to reduce a retailer's capital requirements, in addition, on seasonal merchandise, wholesalers often deliver the merchandise in advance of the season; but do not require payment until the season is underway. The retailer actually pays for his goods with the money he receives for selling them. This is very close to consignment selling.

Wholesalers reduce the risks of retailers. Wholesalers usually guarantee the merchandise to sell, and the retailer can thus get immediate satisfaction on claims involving detective merchandise.

By furnishing managerial services and advice, especially to retailers, wholesalers have significantly strengthened own position in the market. The existence of a full-function wholesaler is dependent upon the economic health and well-being of small retailers. Therefore by helping the retailers the wholesaler helps himself. Some of the managerial services provided by wholesalers today include training of retail sales clerks, advising on and helping with store displays and store lay-out and establishing better systems of inventory control and accounting. Wholesalers also supply information regarding new products, competitor's prices, and other data regarding market conditions.

There is a tendency to consider the wholesaler as a type of vulture fattening on profits as a middleman. The theory advanced by persons holding this view is that if the wholesaler is eliminated the ultimate price of the goods the consumers would be reduced. It is however net so. The wholesaler occupies a very important and specialised position in the channel of distribution. He not only assists the manufacturers as well as the retailers but acts as the link in the chain of distribution between the manufacturer and the consumer.

It would be too much to say that the wholesaler does not perform any service to the society. In his absence, it may be very difficult for the consumer to obtain goods of such diverse quality and variety. Even when the function is assumed by multiple shop or of a wide selection which is provided only when goods are assembled by the wholesalers. Direct contact between the producers and the consumers is likely-to be inconvenient to both. The producers may have to fritter away their energies in marketing the goods and to wait for an unusually long period with all the accompanying risks. Further, the consumers may not be able to fulfill their demands as conveniently and speedily as they can 'do with the help of wholesalers.

The wholesalers assess the public demand and see that marketable goods are manufactured thus protecting the manufacturer from wasteful and indiscriminate production as welt as the consumer against goods which are neither satisfactory nor of good value.

In the words of J.F.Pyle "the wholesaler is being put to the acid test as to whether he still has a place in our marketing organisation. As long as he can and does perform marketing service more satisfactorily or at a lower cost than other agencies. He will find a profitable place. So long as the producer finds it more economical to devote his major attention to producing and to delegate to the specialised marketing agencies the task of selling the goods: so long as the ultimate user finds it more convenient and economical to supply his wants by patronizing the retailer rather than by seeking out and buying from the original producer, the services of the so called middlemen greatly appreciated".

It is also said that wholesaler adds another transaction in the chain of distribution. This is incorrect. Actually a number of transactions is reduced. This is because the retailer, instead of sending his orders to a number of manufacturers, can place an order with the wholesalers in respect of goods of as many different manufacturers as he may choose. Wholesalers have thus become a necessary and they form an important and integral part of the economic process of distribution.

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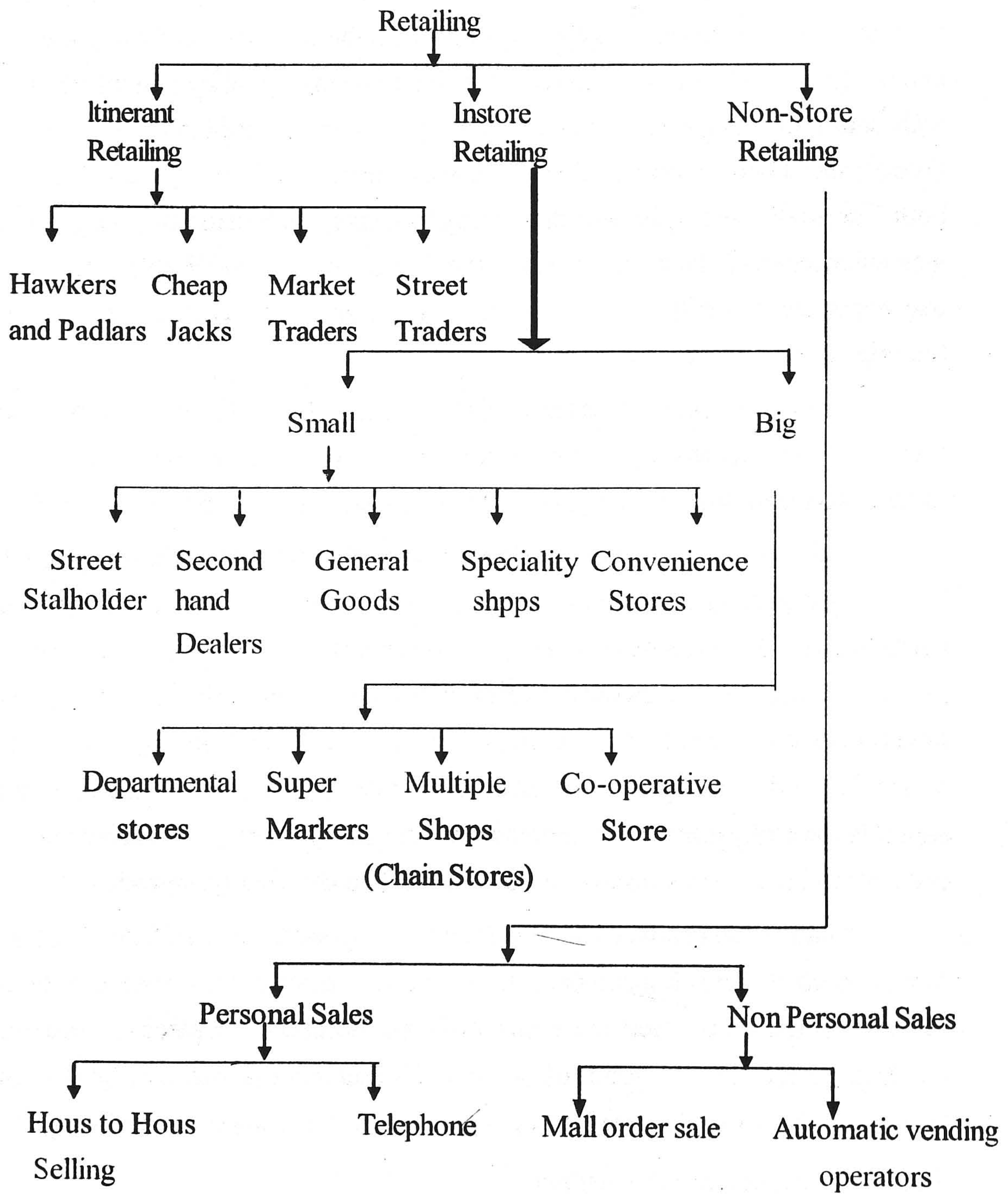
9.7 RETAILING

Retailing has been defined by American Marketing Association as "the activities involved in selling directly to the consumers and includes all forms of selling to ultimate consumers". I It embraces direct-to -consumers sales activities of the producers, whenever their own stores or by house-to-house canvassing or by mail order. It does not cover sale by producers of industrial goods, by industrial supply house or by retailers to industrial, Commercial or institutional buyers for use in the conduct for their business". From the definition it is clear that retailing consists of those activities which involve in selling directly to ultimate consumers. Except a few producers of consumer products who make direct retailing all other retail dealings in consumer products occur in a marketing channels through retailers.

Fig.9.3 Types of Retailers



The consumers get most of their-requirements in the form of goods and services from the retailers. Therefore, retailing occupies an important position in the field of marketing. Generally, the functions rendered by a retailer can be summarised as under:

9.7.1 Functions of Retailers

1. The retailers purchase and store such goods (quality, colour, design, style, etc) which meet the needs of the consumers. They are able to predict properly on account of the fact that they keep close touch with the consumers.
2. Generally consumers buy in small amount of goods according to their consumption requirements. Therefore retailers perform the functions of dividing. Subdividing and packing the goods.
3. Retailers create place utility by transporting the goods to the point of consumption. Similar, they also create time utility by procuring and storing the goods in their shops, till it is actually demanded by their customers. They also create possession utility duly transferring the ownership of the product (i-e) by effecting sales.
4. In modern days, many retailers are ready to make home delivery of products, sometimes free of charge just to secure the patronage of the consumers.
5. As mentioned earlier, the close contact with the customers helps them to supply market information to the manufacturers either direct or through wholesalers.
6. Retailers indirectly provide finance to the consumers by granting credit facilities and thus increasing their short-term purchasing power.
7. As retailers stock the required goods of the consumers, the latter need not stock their requirements, but on the other hand, they can have fresh items from the retailers as and when required by them.
8. Besides the above, the retailers also render a number of marketing functions such as advertising, sales promotion etc.

9.7.2 Types of Retailers

To-day, in the field of distribution, we find the existence of mobile as well as fixed-shop retailers. The mobile rotifers do not operate from fixed business premises but move from place to place for selling the goods to consumer. The mobile retailers are of different types such as hawkers, peddlers, street vendors etc. In the case of house-to-house selling, manufactured articles will be carried on head or animal's back or in carts from place and said out to the customers. In modern days under this type, only a small number of articles mostly within single merchandise line is traded.

Fixed shop retailers carryon trade in fixed premises. Generally they operate on small scale. In the field of retailing, small scale retailers still hold importance. They are found in the form of small stalls, second-hand goods dealers, general Stores, single-line stores and speciality shops. Out of the small stalls, general stores are predominant.

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It is easy to set up small and independent stores. This type of store requires only a small amount of capital. Mostly they are owned and operated as individual units. The owner off the store performs the business by himself or appoints only a small number of employees, to assist him. He buys his merchandise from the wholesaler or from other middlemen. At times, the prices charged by these stores are higher than the other organisation but still they are able to succeed in maintaining the patronage of the customers by offering other facilities like home delivery, grant of credit, etc. By his own self effort, he helps the commodity and at the same time builds reputation for his store and earns profit.

Large-scale retailing is assuming importance now-a-days and there are seven main types of large scale retail institution; (1) Departmental stores, (2) Multiple shops or chain stores, (3) Mail - order - business house. (4) Consumer's Cooperative Stores, (5) Supermarket (6) Discount houses and (7) Hire purchase trading houses.

a) Department Stores

Department store is a large-scale retail organisation comprising a number of departments each of which dealing in a separate tine of products. It is a combination of a number of single-line stores under one roof and one control. Killough defines department stores as a "retailing institution that deals in many lines of merchandise, including women's wear and house furnishing, each line being separated or departmentalized from other". Clark defines department stores as "that type of retail institution which handles a wide range of merchandise under one roof with the merchandise grouped into well-defined departments which is centrally controlled and which caters primarily to women shopper"

Thus, a department store is a large retailing business unit having a number of debarments each of which deals in activities of one kind of trade. Each department is a store in itself. The different departments of a department store resemble the specialist shop under one roof and one control. Even though all departments are centralised each department operates as a separate unit with regard to purchases, selling activities and other aspects of administration. Department stores generally cater to the needs of richer class.

Even though France is said to be the home of department stores, countries like England, U.S.A., Japan and China have also made good progress, in establishing retail trade on the basis of department stores. The success of cooperative stores which were organised in England towards the end of 18th century encouraged the business people of France, to establish bit stores. Thus two well known departmental stores of the world 'Bon Marche' and 'Lourve' were established by leading merchants of Paris. Thus, success of the department stores of France encouraged the business people of various countries to establish departmental stores in their countries.

The success of a department store depends much on its location and premises. Usually the location selected for a large department store, is a central place where a large number of people move about during the day time. Many writers viewed that a building located on a corner of the street is better than one located on the middle of the road. It is also said that the location near central market place may be preferred as there will be no

different types of buyers. But in selecting the location it must be borne in mind, that the rent which the business has to pay for the premises, in such a locality does not take away the major portion of profit. Again as a business policy, as far as possible the department stores should not be located in those areas, where keen competition continues.

Generally, department stores are owned by limited companies. Hence each department store will function under a board of directors. But the Board will delegate its powers to a managing director or general manager to keep a general supervision over the concern. For administrative purposes the general manager or managing director will be the executive head and will be in supreme charge of the whole concern, section managers will be in charge of each department. They are responsible for their sections and they will be just next to the managing director or general manager. The managing director or general manager is the central figure who controls the section managers and organise the store as a whole. It is always better to make every section manager responsible for the working results of his department. General problems of the concern are often discussed in the meeting of the section managers at some intervals and common decisions are taken to run the department stores at a profit.

Merits of department stores:

1. Customers can have all their requirements from a department store as different departments dealing in different goods are opened under one roof.
2. Since the department stores are located in a central place they can attract more customers.
3. Since department stores are purchasing their requirements, in large quantities and that too from the manufactures directly, they may receive special concession or discount. Moreover, middle, men's charges are deleted totally.
4. When the customers enter the store to purchase goods from a particular department, they are frequently induced by the advertisements of other departments and to make purchases in other departments as well. It helps to increase the total sales of department stores.
5. Generally, it is formed as a limited company and as such there will be no hardship of getting necessary capital to carryon the business enlarges scale. Hence, all merits that accrue to a large concern can be availed of by departmental stores.

Demerits of department stores:

Although many advantages stem from department stores, they are not free from demerits.

1. The cost of doing business is comparatively high. As different departments are opened under one roof a large number of employees is necessary to run business. Moreover, department stores are generally located in a crowded place and hence the rent payable to the building will be high.

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2. As department stores are located in the heart of the city people who are residing away from the city limits have to spend much time and money to come to these big shops.
3. Personal touch with the customer is lacking. As it is a large organisation, it will be difficult to pay individual attention to each and every customer who visits the store. Hence people who case more for personal attention will prefer making purchases from retailer, who always comes in close contact with his customers.
4. Department stores have to spend huge amount on advertisement and publicity in order to keep a steady demand. Moreover the free service arrangements or after sales service also is a burden to them.

Some department stores India are found in cities such as Delhi, Calcutta, Bombay and Madras. But the department stores in India are in no way comparable with that of France, England, U.S.A and other countries. Department stores have developed to a great extent in western Countries since most of the people there belong to the wealthy class- But in India, majority of the people cannot afford to pay high charges which department stores charge. This is the primary reason for the unpopularity of such stores in India. Spencer's in Madras is the example for this type of stores in India.

b) Multiple Shops

This is a system under which a large number of shops, dealing with the same type of goods are established by the same management. These shops may be located in various localities of a particular city or may be located over number of cities in a country. Multiple shops are more popular in U.S.A. and Europe. In U.S.A the' multiple shop system is referred to as the chain stores system. Multiple shops are established with the main idea of approaching the customers and not to attract the customers towards it, as it is used in the case of department stores. Multiple shops are generally dealing with a limited variety of goods. Specialisation is the fundamental principle, under which these stores are operating.

Multiple shops except for those of the bazaar type are about the same size, as the average shop of the sole proprietor. Each shop is designed and decorated in the same setting and style so that it is recognised more easily by their customers, even when they are in a new town. The multiple shop organisation resembles the wholesalers or manufacturers. They seem to eliminate small retailers. Each shop deals in the same type of products. Generally, the products dealt in multiple shops are meant for every day use. They are branded and they are portable. "Sometimes multiple shops are established by the manufacturers themselves and such stores are named as manufacturers" retail stores.

As departmental stores, multiple shops are also owned and managed by joint stock companies. As in the case of the departmental stores, Board of Directors of the company is the highest organ of management. Board's programmes and policies are implemented under the supervision and direction of General Manager of Managing Director. Under him there are area managers. Under the area managers there are branch managers.

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A branch manager is directly held responsible for internal organisation of the shop of which he is the manager. All these branch offices are controlled by the head office. All the requirements of the branch manager are supplied by the head office. The activities of the branch manager are restricted to the selling of goods stored in his branch. The branch managers do not have any say in the policy matters.

The prices of goods are fixed at a uniform rate. Usually head office fixes the prices of goods: branch offices (shops) invariably sell the goods on cash basis. The cash receipts are deposited with the bank every day. The branch manager is not permitted to use the cash receipts for meeting current expenditure. The expenses and wages to employees of the branches will be directly paid by the head office. Sometimes the branch manager may be given a cheque to make these payments.

The head office fixes the quantity of stock in each line of goods for each branch. It will avoid both surpluses and shortages. The branch manager must also send to the head office the requisition for any suppliers required by him. To have an effective internal check over the branches the head office will appoint inspectors and each inspector will be in charge of certain branches in each district. Inspectors will have unscheduled visits to the branches to maintain a thorough internal check of cash and stock of department.

Merits of Multiple shops

The multiple shop system generally has the following advantages:

1. On one side, the multiple shop system enjoys the advantage of a small shop and on the other it enjoys the benefits of the economies of large scale buying. Since the head office has to make purchase for all its branches it is in a position to gain the economies of bulk purchasing. It may make purchases directly from the manufacturers and obtain substantial discounts.

2. Multiple shops work on the basis of "cash and carry". As there are no credit sales, capital will not be frozen in the form of book debts and also there is no risk of bad debts.

3. Multiple shops achieve a rapid turn-over, as it is in a position to feel the pulse of the market and find out the current demand for products. So it can stock those goods which sell fast. Thus rapid turnover is achieved by this system.

4. The multiple shop works with lower operating costs. This is due to various factors such as rapid turnover, elimination of bad debts avoidance of expenses involved in keeping accounts of credit sates and centralized advertising for all shops.

5. Economy in operating costs results in cheaper price of the goods: Hence these shops sell the goods: more quickly then their competitors.

6. There is the possibility of adjustment of stock from one shop to another. If one branch is in short supply, it can be easily made up by the transfer from near by branch at a short notice. Moreover, inter branch transfer for goods can easily avoid or minimise the risk of dead stock.

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7. All shops (branches) are uniform in style and design and also advertising materials are the same for all shops. Thus every shop serves to advertise the other of the same organisation.

8. Multiple shops are comparatively nearer to customers. Hence, they draw considerably a large number of customers.

9. There is flexibility in operation of this system. It is caster to withdraw shops or branch from the locality where the demand is declining and start a new one in a developing locality.

Demerits of Multiple shops

Not with standing advantages, this type of organisation suffers from certain advantages.

1. The multiple shops deal only in limited lines products. Generally, they only deal in one brand of a particular commodity. Hence those who WOL"J like to make a good selection of goods in the same line will be disappointed.
2. There is-no individual attention. As such there is not possibility for any personalised service such as home delivery, credit facilities etc. Moreover, individual tastes and desires of the customers cannot be tailored to buy from the multiple shops.
3. There is lack of interest and initiative on the part of the branch managers as they have to strictly follow the policies laid down by the head office. They have no say on the policies framed by the head office.
4. The organisation and control tend to become bureaucratic. This is inseparable, if a uniform general policy is to be carried out.

The growth multiple shop organisation is of recent origin in India With a view to establishing direct contact with consumers many manufacturers have set up their own retail stores. The best example in this connection is the Bata Stores; Textile mills like Delhi Cloth Mills, Calico Mills, and Bombay Dyeing have also set up retail stores in important cities.

c) Mail Order Retailing

The mail order houses are retail establishments primarily engaged in receiving orders from the public through post and delivering articles by post. Thus, mail order business is carried on through post and as such the personal shopping is avoided. The post office is the channel through which the mail order business is conducted. The basic feature of the mail order business is the absence of direct contact between the buyers and sellers.

The mail order business had its origin in U.S.A which is big country, where people have settled down in some of the remote corners and have accumulated wealth. These rich people living in rural areas of the U.S.A., Found that chopping by mail was the only possible way by which they could get their requirements from big business houses of cities. To noted mail order houses of the world are the Montgomery Ward and Sears of Roebuck. They were founded in U.S.A in 1872 and 1886 respectively.

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Mail order houses may be classified into three categories as follows:

i) The Manufacturing type

Under this system, manufacturer sets up an agency to sell his goods by mail directly to the consumers. Here in the chain of distribution of goods, middlemen are eliminated.

ii) The Departmental type

Under this system, big departmental stores, in addition to selling goods through different departments under one roof will also undertake supplying goods, for orders received from outside.

iii) The Middleman type

This type of business house is considered as the true type of mail order house. As such a business house is mainly concerned with the sale of goods by mail and does not engage in production or wholesaling. One receiving the orders by post the goods are bought either from the manufacturer or wholesaler and will be dispatched of the consumers. Sometime goods are also bought on anticipation of orders.

Preparation of the mailing list is the first step in the operation of mail order business. The mailing list consists of the names of the persons, who are likely to be interested in the goods to be offered by the concern for sale by mail. The mailing list can be prepared by reference to government records like the assessment list to local bodies, the list of members of clubs, trade associations, telephone directory etc. The mailing list is carefully prepared to include old customers as well as in other addresses collected through various sources. After the preparation of the mailing list, books, leaflets, etc., folders may be sent to the addresses. They can also give advertisements in newspapers and magazines which and be expected to reach the hands of the prospects. Third step is the receiving of orders from the public. The order may be received by the mail order houses at their promises or they may all for orders through Post Box, by giving the Post Box number in the advertisements or circular letters.

After receiving the orders the business houses must make arrangements to execute the order. Goods are properly packed and sent to customers either by Registered Parcel Post or by Registered Book Post. Generally goods are sent by the system of V.P.P. (Value Payable Post). Under this method goods are delivered to the addressees by postman on receiving the payment of the price. Then the money will be remitted by the post office to the sender of goods.

Mail order business houses must make a careful selection of the goods to be offered to the customers by mail. Goods which possess the following characteristics generally can be considered as suitable for mail order business (1) They should be non-perishable (2) They should be easily gradable (3) They should not be to heavy to be sent by mail. They should be capable of being delivered ready for immediate use (5) They should be such as can be understood fully from description (6) They should be free from transport difficulty.

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Merits of Mail Order Business

1. The customer gets his requirements at his own place and thus saves the time and expenses of shopping.
2. The customer is given an opportunity to select goods from the large stock of goods which have been fatty described in the catalogue and other literatures sent to them.
3. The trader need not spend a large amount on decoration of the business house, since the mail order business can be handled from any place having facilities of postal services.
4. Goods are always sold on cash basis and hence the trader does not run the risk of bad debts.
5. The customer can arrange for payment of price till the goods are delivered by mail.
6. The customer can get those goods which are not available in the local markets.
7. To start a mail order business, small amount of capital is enough.
8. The mail order business helps the trader to get a vary wide market, in which to sell his products.
9. The trader need not have storage facilities, since he purchases goods from manufacturers only as and when the orders are received from the public.

Demerits of Mail Order Business

1. Under this system, personal contact with the customers is lacking. The business house is not in a position to give personal advice to the customer regarding the usage of its products.
2. The customer is not given an opportunity to satisfy himself as to the quality of products through inspection.
3. Customers are not given credit facilities.
4. Articles which require demonstration and articles which are very bulky cannot be sold by this method.
5. Under this system, there is considerable scope for fraudulent dealing and inconvenience to customers due to delays and misunderstanding.
6. Mail order business has little flexibility. Catalogues and other literatures have to be prepared long in advance of the season. And changes if any in the price of the articles take place, it can be announced only through a supplementary catalogue. Printing of catalogues is very costly.
7. This system will not reveal the causes for decline in sale to get orders.'
8. Customers cannot have the advantage of immediate delivery as they will have to await the actual arrival of the goods. So the customers cannot avail themselves of mail order system if the need they articles urgently.

9. The business house has to spend huge amount on advertising.

   In India, the development of mail order business has been very slow. Because of the reasons outlined below, it lacks popularity in India.

a) In India, the percentage of literacy is very low. As such most of the people cannot be approached through this method.

b) The success of mail order business depends also upon the postal facilities available in each and every village, town and city. But in India, many villages are still without postal facilities. Under such circumstances no rapid progress of mail order business can be expected.

c) In India a majority of the people either belongs to the working class or agriculture. Their standard of living is very low. These people mainly but their requirements in Local markets, as soon as they get their wages of the day. Under mail order business people cannot get things on the day they require.

d) Indian traders lack the honesty. Many unscrupulous traders have been using this channel to defraud innocent public. Hence people are unwilling to purchase goods from mail order houses. In India, with the advancement of education the mail order business will have a better scope.

d) Consumers' Cooperative Stores

When consumers are dissatisfied with the products or services they receive from retail shopkeepers, they decide to take up the business in their own hands and there comes into being what is known as the "Consumers' Co-operative Stores". Consumers' cooperative store consists of consumers to purchase products or services at favourable prices for reselling them to see members and non-members at prevailing market rates. To economies and retain the profits for themselves by buying and selling their daily requirements in common consumers join together and start Consumer's Cooperative Stores. As in the case of all co-operative societies, the capital is subscribed by members through the purchase of shares of small denominations. A part of the profit earned is passed on to the members in the form of bonus on purchases.

It is purely a voluntary association. It is organised with the main aim of supplying goods and service to its members. Membership in the stores is open to all. The capital of the store is divided into shares of small denominations. Consumers who are desirous of becoming members 'of the store are instructed to purchase at least one share. All the members have equal voting rights – 'One man - One vote' is the principle.

To run the store, managing committee is elected. Managing committee will look into the affairs of the stores with the assistance of paid employees. Generally, these stores sell goods on cash basis. Moreover, the member, apart from the bonus they get on the total purchases made by them, they are also entitled for dividend on their shares.

Rober Owen is called the father of co-operation. England is the home of consumers' co-operative store movement. The first consumers' store known as Rochadle Equitable

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Pioneers' Society was established at Roachadle in England in 1884. This movement became very popular in Europe during the second half of the 19th century. It became more popular in other countries particularly in U.S.S.R. in the beginning of the present century. In recent years, these stores got a special status in many states of India due to the encouragement given by the government to distribute the essential commodities.

Merits of Consumers' Cooperative Stores

The Consumers, Co-operative Stores offer a number of services to the consumers. Some of them are enumerated below:

1. The consumers are assured of quality good in these days of adulteration and short supply as the stores are managed by the consumers themselves, to meet their own requirements. Moreover it provides to its members, goods and services comparatively at cheaper prices.
2. As the store is managed by an elected Managing Committee, consumers have complete control over the store. Hence the genuine needs of the consumers will be promptly met by the store.
3. As the share capital of the store is divided into shares of small denomination, even poor and middle class people can buy the shares and become members. Thus it encourages thrift of people so that they can invest more and more in their co-operative stores.
4. It helps the members to prepare the family budget and purchase their needs carefully.
5. It eliminates middlemen and their profits to considerable extent. This makes possible the selling of goods at cheaper prices. Moreover a portion of the profit is transferred to the members in the form of bonus on the basis of their purchases.
6. Consumers' co-operative stores spread the spirit of co-operation and mutal help among the members. It inculcates a sense of democracy in community life. It may even run schools and hospitals for the benefit of members.

Demerits of Consumers' Cooperative Stores

Consumer's co-operative stores suffer from certain inherent limitations which have been responsible for their limited success. Some of them are discussed below:

1. Consumers' co-operative stores are not able to operate sufficiently as that of other retail stores, since the size of most of the stores is small. The size of a store depends upon the number of members and their subscription: In most of the stores, it is found only a limited number of persons become their members. Moreover, the organisational structure of most of such stores is very weak which limits their success.

2. Departmental stores and multiple shops try to achieve a number of economies in respect of buying, selling, use of capital and control of stocks through specialisation of a higher order. The co-operative stores, too try to specialize in number of lines. In this attempt they fail and are not in a position to reap a rich harvest of economies as multiple shops.

3. The co-operative stores do not pay much attention to appearance, window display etc, as they depend largely on their members' loyalty rather on attracting customers to them.

4. These stores are not running successfully, as the persons in charge of the management of the stores do not possess enough experience and training.

5. The success of these depends upon the loyalty of their members. But such stores often face a problem, that their members are not very much loyal to them. They do not patronise them regularly.

6. Their members can withdraw their capital at any time. If the members happen to withdraw their capital during depression or in other difficult periods, it wilt prove to be of disastrous consequences.

7. In, India, as well as in many other countries, most of the co-operative stores are able to carryon business because they are getting state patronage. They will collapse, if that patronage is withdrawn.

e) Super Markets

Super market is another large scale retail institution which originated and developed in U.S.A., mainly during the inter-war period. The super market, housed in very large sized premises, appears to be like a department store but in reality, the two differ in many ways. It is somewhat difficult to analyse super market because there is no common accepted definition for the term. However Philips and Duncan have defined a super market as follows.

"A super market is a departmentalized retail store usually handling a variety of merchandise and in which the sate of food, such of which is on a self service basis, plays a major role".

Generally, a super market is located at the main shopping centre and offers wide variety of products for sale under one roof. Usually, it is organised on a departmental basis and salesmen are not appointed to help the customers. All the articles are properly lapelled and by reading the libels, customers can have an idea-of the prices. Customers, who want to make purchase in a super market can take a trolley to collect the desired goods. When the customer finishes his purchases, he will wheel the trolley to any of the various exists where he is charged for his purchases. Goods are sold strictly on cash basis, so the customer will have to pay cash then and there. Moreover, super market does not offer various free services to the customers. Unlike a department stores, if offers only limited services to customers.

Although in India some of the consumers' co-operative department stores are called super markets (For e.g. Chinthamani at Coimbatore, Pandyan at Madurai, Kamathenu at Madras) they are not super markets in the sense in which it is understood abroad. Even these super markets (Consumers' co-operative stores) are limited to big towns only. Now efforts are being taken to start them in towns with a population below two lakh persons.

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Merits of Super Markets

Most of the advantages offered by the super market are the same as offered by a big departmental store. However, the following specific advantages are offered by them.

1. Customers can have goods from a super market at a relatively lower price because of lower operating costs, rapid turnover, large scale buying, etc.
2. Operating costs are kept at a minimum, because they do not offer many free services to customers: they do not have sales assistants; and the customers have to depend upon self-service.
3. In the super markets customers can have perfect freedom in the selection of merchandise they want to purchase. They can take their own time for the selection of goods. They are not disturbed by the interference of salesman.
4. As the commodities are sold at a relatively cheaper price, they attract many customers. Moreover super markets have large capital at their disposal. Hence, they use effective sales promotion measures to attract more customers. In this way, they are able to have large as well as rapid turnover.

Demerits of Super Markets

However, super markets have certain inherent limitations as follows:

1. To establish and run a super market, huge amount of capital is necessary. It has to be located at the main shopping center, in a large building for which heavy rent has to be paid. Huge amount has to be spent on furnishing the buildings and for the display of goods.
2. Customers, who want personal attention, do not get such personal service and attention in super markets.
3. Products which require explanation and demonstration by salesman cannot be handled by super markets.
4. Super markets can be operated only in big cities. They cannot be established in small towns, where the turnover may be small.

f) Discount Houses

Discount house is another retail-institution which deserves special mention because of its recent origin and the widespread interest in it shown both by manufacturer and consumer. The development of discount house after the World War II is quite significant. These houses are more popular in U.S.A.

A discount house is a retailing business unit, that sells consumer durable items, selling below the list price or regular advertised price and operates with a minimum customer service. In actual practice, there are many different types of retailers calling themselves discount, houses. They range from small open show-room to mall order offices and all the way to full line limited service stores, which can be classified as a department store. Any retail institution, whose main promotional emphasis is on selling nationality advertised

merchandise at price below those of conventional dealers, is in fact described as a discount house.

Although some discount houses appeared in the late 1930s, big discount houses were set up only after World War II. During the post-war period, major manufacturers of major appliances and other consumer durables, had greatly expanded their production facilities to meet the situation. But soon they found their expanded facilities were capable of producing more results, it was in this situation manufacturer's turn to discount houses which could provide the needed additional sales volume.

The situation was ripe for major changes in retailing. Traditional retailer's independent stores and department stores failed to grasp the situation and they maintained their traditional market policies whereas the discount houses were able to grasp the situation and saw the tremendous marketing potentialities in a low margin, high turnover, and type of operation with limited services but big price reductions. In the beginning, discount houses were set up to deal in the so called "hard good- line - that is appliances, furniture and other consumer articles of high unit price. After 1953, the selection of merchandise offered by discount houses had broadened satisfactorily. To-day many have added broad lines of soft goods including a line of wearing apparel for men, women and children, linen and bedding and giftware. The early discount houses, which were dealing in hard goods, depended strongly upon brand name. They attracted customers by offering well known brands at discount prices. Modem discount Houses which are dealing in soft goods line (brands are far less important in soft goods tine) with broadened lines of merchandise find it hard to prove that their prices are lower. They are trying to build consumer confidence in their pricing structures.

As discount sellers, add more expensive merchandise, broaden their assortments more into fancier and larger building and also add more services, their operating costs and risks have increased to a large extent. Intensified competition is also causing financial problems to these houses, and there are signs of slow down in the rate of entry into the field.

Now-a-days, discount sellers are losing their identity as a distinctive form of retailing institution. Instead of price appeal most of the mature discount houses will have to rely more on the form of non-price competition (services, quality products, promotional activities, etc.) used by traditional retailers.

g) Hire Purchase and Instalment Trading Houses

Usually goods are sold either on cash basis or credit basis. The hire purchase system is a third method which steers a midway between the above two systems. This helps the middle class people to purchase expensive items.

Under this system a purchaser takes the possession of the goods immediately by signing the hire purchase agreement; but he is not required to make payment of the entire price at one time. The seller agrees to receive the entire price of the goods in easy installments

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which may be weekly, monthly or annual. This system comes under large scale retailing. Transactions of this nature may be sub-divided into two - Hire purchase transactions and Instalment purchase transactions. Under both the systems, the buyer gets the possession of the goods. Then he is required to pay the price in easy installments. However the following are essential differences between these two. They are.

1. Under the hire purchases system the buyer gets the possession of the goods but not their ownership until he makes payment of the final instalment. But under the instalment system, the purchaser gets possession as well as ownership as soon as the contract is entered into and goods delivered to him.

Under the hire purchase system, these seller has a right to recover goods, as he is the legal owner, as well as forfeit the payment received incase the purchaser is unable to make payment of installment when due. Under the instalment system in case the purchaser defaults in making payments the seller does not have any right to retake the possession of goods and forfeit the money received. The only remedy open to him is to file a sub against the purchaser for the balance due.

All commodities are not fit for hire purchase and instalment sale. Certain goods, which possess the following qualities, are suitable for these two types of systems.

i. High priced articles are highly suitable for such transactions. The price of article should be so high as it may not be possible for the purchasers to make outright payments.

ii. The articles to be traded must at least be so durable as to last longer than period over which instalments are spread. The perishable commodities are not suitable for these systems.

iii. The commodities to be traded should possess standard specifications, so that the commodity may be easily sold off whenever it may become necessary.

iv. The commodities to be traded should have a steady demand; otherwise the customer may easily return it after paying some instalments.

v. The commodity should be of a type, which can easily be marketed so that it an. be recovered in the event of purchaser's default in payment of any instalment.

Thus, certain commodities are more suitable for hire purchase or instalment retailing. The examples, of such commodities are radio, television, refrigerator, sewing machine, fans, motor cycles, bicycles typewriters etc.

Merits of Hire Purchase and Instalment Trading Houses

1. It becomes possible for the people in lower and middle income group to own some costly and useful goods by paying the price in easy instalments. It is an indirect means to promote thrift among the public at large.
2. This system helps the small and medium entrepreneurs who want to establish a plant of their own but are unable to find the total sum required at once. They can purchase the necessary machinery and equipment and install them and start

production immediately without making arrangements for the entire price of the machinery.

3. This system also helps the sellers of the luxurious and high priced articles to push the sales of such commodities by attracting a large number of purchasers to buy articles on easy payments.

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Demerits of Hire Purchase and Instalment Trading Houses

However, this system of retailing has the following disadvantages:

1. This system creates the people of lower and middle class to purchase commodities which they cannot afford. It may cause serious financial problems to them.
2. This system makes the articles dealt in are costlier, as the purchaser is required to make payment of the cash value of the article as well as the interest on unpaid balance. Moreover, the case value itself is higher as the seller has to incur expenses in the collection of instalments and has to take into account the losses owing to default on the part of the purchasers.
3. Under this system of trading, the seller runs a heavy risk. Even through the seller has the right to recover the good in case of default in payment, the recovered goods may fetch little because they are after all secondhand goods.

9.8 FACTORS INFLUENCING CHOICE OF CHANNELS

The producer or the manufacturer has to make decision regarding the choice of most suitable distribution channel at minimum cost and attaining the desired level of sales volume. The following are the major factors that influence decision regarding the choice of distribution (1) The Product (2) The Market (3) The Manufacturer (4) The Middlemen (5) Consumer (6) Environment, (7) Cost Requirements, etc.

9.8.1 The Product:

The characteristics of a product determine to some extent the way in which it can be distributed. The important among them is the unit value of product. Generally, a longer channel of distribution is used to distribute a product which has lower unit value. On the other hand, if the produce is of high unit value the company is more apt to use shorter but more costly channels. For instance, installation-type industrial products are sold direct to user, while small tools and other accessory equipment usually go through wholesalers or agent middleman.

Company must consider the cost if freight and handling expenses in relation to the total value of the product is high. Generally a producer of heavy, bulky item where freight is significant part of the total value will seek to minimize the physical handling and will prefer to ship in truck load quantities. For instance coal is shipped directly to the Industrial user, even when it is sold through middleman.

The product's perishability also affects channel decisions. Perishable products are usually distributed through relatively short channels, so that they can reach the final buyers quickly. Manufacturers of non-perishable goods have wider choice in channel selection.

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The products complexity is another factor which affects channel selection. Highly technical industrial products requiring specialised selling ability or servicing normally should be distributed directly to the industrial user, through the shortest channel available. Consumer products of a technical nature cannot be sold by the manufacturer directly to the consumer. As much as possible the manufacturer tries to sell directly to retailers, but servicing may have to be done-by the manufacturer.

Fig:9.4 Choice of Channel of Distribution

A. Nature of Product
1. Perishability
2. Unit Value
3. Technical nature
4. Age and Size of product
5. Product line

B. Nature of Market
1. Size of Market
2. Number and location of Buyers
3. Size and Frequency of Purchase
4. Buying habit and preferences

C. Nature of Manufacture/ Firm
1. Size of firm
2. Financial Resources
3. Volume of output
4. Degree of Control
5. Facilities Available
6. Managerial experience

D. Nature of Consumers
1. Consumer Preferences
2. Distribution network
3. Order size
4. Consumer buying habit

E. Environmental Considerations
1. Economic Conditions
2. Technical Conditions
3. Legal Considerations

CHOICE OF CHANNEL OF DISTRIBUTION

The degree of product standardisation is also an important factor affecting choice of channels. Highly standard used products, for example machine tools are commonly marketed through tong and complex channels. If a product is custom made, it is usually better to distribute it directly, to ultimate consumer or industrial user.

9.8.2 The Market

Market considerations exert powerful influences on the distribution channel chosen. The first important question to consider is whether the product is intended for the industrial market or the consumer market. Retailers will not be included in the channel if it is going to the industrial market. If it is going to both markets the company will have to use more than one channel.

Among the market considerations the buying habits of ultimate consumer are most important. When customers are accustomed to buying a particular product from a particular source, for example it is not easy to switch them to a different source. The amount of effort' the customer is willing to take and the desire for the services of a personal salesman significantly affect channel policies.

Size and location of the market are also important. When, there is a very large number of buyer concentrated in a few geographic areas it is likely to need one layer of middlemen or direct sale. When customers are widely scattered geographically, it is generally easier to reach them through long channels.

Typical order size will influence the channels used to reach the market. A manufacturer may sell direct to a large chain organisation because of the larger size of its purchases makes this channel economically desirable. But the same manufacturer will utilise the services of the wholesalers to reach smaller retailers.

Another important factor to be considered is the number of potential customer of a market. If the market is relatively small consisting of small number of potential buyers, the company may be able to use its own sales forces and sell direct. For example, firm selling drilling equipments and supplies only to the oil industry can use its own sales force and sell directly to users as the potential users are limited. On the other hand, if the company's products are to be sold to industries and to firms in each industry, the manufacturer will make extensive use of middlemen.

9.8.3 The Manufacturer

Factors within the company's own organization can strongly affect channel choice. Management's experience and ability are important. Services of middlemen or agents are needed when the executives of company are lacking marketing knowhow. New companies often rely upon the middlemen to do the marketing job.

Another factor which affects the channel policies is its size. Generally, a larger firm is more apt to have shorter channels than a small enterprise. Financial strength of the company must also be considered. A financially strong company can establish its own marketing department. It can also allow credit facilities as well as storage facilities and a financially strong company needs less middlemen than the one which is financially weak.

The manufacturer's desire to control the distribution of his product also affects the channel length. For example, if a manufacturer wants to establish control over the distribution of his products, he may select a short Channel even though the cost of direct channel is

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higher. The channel choice is also affected by the reputation of the company or its products. Generally, middlemen are willing to take a known product, but hesitate to take an unknown products or new products. Hence, manufacturers of well known products enjoy considerable freedom in putting together the combination of middlemen they want.

9.8.4 The middlemen

Often marketing channels are dictated by the middlemen available. Hence middlemen are important. The producer should recognize that the middlemen he desires may not be available. Middlemen may be carrying competitive products and may not wish to add another product. In any event the manufacturers may have to consider alternative channels available.

Producers must also consider the services provided by the middlemen before selecting a channel of distribution. Generally, the producer should select the middlemen who will provide the marketing services which the-producer cannot economically perform. For example if a producer requires special storage facilities, a wholesaler may provide the best facilities.

Sometimes a manufacturer's choice of channel is limited by his marketing policies which are not applicable to certain types of middlemen. For example, if a producer is unwilling to guarantee the produce against, a price decline, many middlemen may not come forward to handle the products.

9.8.5 Consumer

In the customer-oriented market, the characteristics of consumers as to their number, location, frequency of the purchase, quantities purchased by them, etc., influence the channel selection. Consumer make very little efforts to purchase low priced items, e.g., match box, cigarettes, bread, soap, tooth paste, etc., which requires intensive network of distribution channels. If the consumers are scattered geographically, a long channel can be adopted. Order size also influences the channel choice. Usually, shorter channel is being used where a small number of large size orders placed by the retail customers for the industrial buyers. Consumer buying habit also influences the distribution channel. Whether they desire for credit, self-service, mail order house, door-to-door service, etc., all affect the channel choice.

9.8.6 Environment

Change in the overall marketing environment also influence the distribution channel policies and decision because the marketing conditions keep on changing. Economic conditions prevailing in the country influence the channel choice. In the economic slumps, the manufacturers try to cut their marketing expenses and thus prefer the short and least expensive distribution channel. Technological development and innovations may also influence the distribution strategies. Legislative and other restrictions imposed time to time by the government also influence the distribution channel choice.

9.8.7 Cost Requirements

The Final point to consider is the cost of selling through alternative channels. When analysing the costs involved in the distribution, a company should study the total channel expenses rather than the expenses of sèparate types of middlemen.

Analysis of cost by channels of distribution is a difficult task. Even when a cost analysis shows which is the lowest-cost channel than the others, factors like product, the market or other considerations may indicate that this channel is not the best choice.

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9.9 INTENSITY OF DISTRIBUTION

Distribution intensity is the number of marketing intermediaries at each level of the marketing channel. Every company must decide on the intensity of distribution, that is, how many middlemen will be used at the wholesale and retail levels in a particular territory. At the retail level, it refers to the number of outlets that sell a particular product to consumer. For example, newspaper can be purchased from street hawkers, newspaper stands, convenience and grocery stores, and other outlets, but computer or refrigerator can be purchased only from a few selected dealers. Therefore, the product and the target market determine the distribution intensity. The following are the three levels of distribution intensity available:

a) Intensive Distribution

b) Exclusive Distribution

c) Selective Distribution

Check Your Progress

I Fill in the Blanks:

1. The policy where a manufacturer seeks to use as many outlets as possible, in as many places as possible like convenience goods is termed as ——— distribution.
2. The middleman who generally handles the goods he sells but does not own them is called ————.
3. A group of interrelated individuals or organizations that directs the flow of products to consumers is called ————.
4. Distribution in which only one or very few outlets distribute a product is known as ———— distribution.
5. A marketing channel in which successive stages of the channel are united under single ownership is called ————.

9.9.1 Intensive Distribution (Mass distribution)

Under intensive distribution, a producer sells its product through every available outlet in a market where a consumer might reasonably look for it. Ultimate consumers demand immediate satisfaction from convenience goods and will not defer purchases to find a particular brand. Thus, intensive distribution is often used by manufacturers of this category of product. Intensive Distribution facilitates maximum sales for a product since the manufacturers of convenience goods and common raw materials need the services of many types of middlemen. Retailers often control whether a strategy of intensive distribution actually can be implemented.

9.9.2 Exclusive Distribution (Franchised distribution)

Under exclusive distribution, the supplier agrees to sell its product only to a single wholesaling middleman and/or retailer in a given market. At the wholesale level, such an arrangement is normally termed an exclusive distributorship, at the retail level, an exclusive dealership. It is the opposite of intensive distribution. Producers often adopt an exclusive distribution strategy when it is essential that the retailer carry a large inventory. Thus, exclusive dealerships are frequently used in marketing consumer speciality products such as expensive suits. This strategy is also desirable when the dealer or distributor must furnish installation and repair service. For this reason, manufacturers of farm machinery and large construction equipment grant exclusive distributorships. Exclusive distribution helps a manufacture control

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the last level of middleman before the final customer. A middleman with exclusive rights is usually willing to promote the product aggressively.

9.9.3 Selective Distribution (Limited distribution)

In selective distribution, a producer sells its product through multiple, but not all possible, wholesalers and retailers in a market where a consumer might reasonably look for it. Selective distribution is appropriate for consumer shopping goods, such as various types of clothing and appliances, and for business accessory equipment, such as office equipment and handheld tools. A company may shift to a selective distribution strategy after some experience with intensive distribution. The decision to change usually hinges on the high cost of intensive distribution or the unsatisfactory performance of middlemen. A firm may move toward more selective distribution to enhance the image of its products, strengthen customer service, and/ or improve quality control.

9.10 FUTURE OF MIDDLEMEN

To survive and prosper in the future, wholesaling and retailing middlemen and physical distribution firms will have to identify and respond to certain trends in their operating environments.

9.10.1 Future of wholesaling middlemen

In the future, wholesaling middlemen and physical distribution firms will face challenges to their roles in the distribution process. The challenges and opportunities include the continuing growth of vertical marketing systems, ongoing deregulation of transportation industries, mergers and acquisitions, and enhanced quality and technology. There will be a direct distribution where suppliers and customers bypass wholesaling middlemen and deal directly with each other. In a weak economy, like the recent recession, manufacturers may seek to cut costs by eliminating middlemen. There is development of new wholesaling institutions like Service merchandiser that serve suppliers and customers in new and more satisfying ways. There is quest for improved quality and/or enhanced technology to maintain competitiveness and boost profits. To succeed, wholesaling and physical distribution firms will have to monitor trends in distribution as well as their broader operating environments and then develop effective marketing strategies.

9.10.2 Future of retailing middlemen

In the future, the retailers will also face challenges to their roles in the distribution process. Many trends represent threats to retailers. But, a threat perceived and handled properly is really as opportunity. Changes in retail institutions can frequently by explained by a theory called the wheel of retailing. Advancing technology dramatically affects both consumer behaviour and retail management. Retailers without such technology will be at a serious disadvantage. An expanding number of retailers are expected to stress value. Compared to past decades, consumers are busier, are older, and have more money to spend. They want products and ways to buy them that provide maximum convenience and service. Largely due to competition, a growing number of retailers are experimenting with

non-traditional locations and also with new or modified formats. In the future, it is likely that more retail chains will expand their markets through new types of locations, such as "power centers". Retail stores will continue to be dominant. But more and more retailers are complementing their stores with one or more types of non-store retailing. Many consumers prefer the novelty or convenience of non-store retailing. To succeed, the retailers need to identify significant trends and ensure that they develop marketing strategies to satisfy consumers.

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9.11 KEY TERMS

♦ **Channel of Distribution**

It is the set of people and firms involved in the flow of title to a product as it moves from producer to ultimate consumer or business user.

♦ **Middleman**

A business firm that renders services related directly to the sale and/or purchase of a product as it flows from producer to consumer.

♦ **Wholesaler**

A firm engaged in the sale and all activities directly related to the sale of goods and services for resale, use in producing other goods or services, or for operating an organization.

♦ **Retailer**

A firm engaged in sale of goods and services to ultimate consumers for personal or non-business use.

♦ **Intensive Distribution**

It refers to distribution through every reasonable outlet in a market

♦ **Extensive Distribution**

It refers to distribution through a single wholesaling middleman and/or retailer in a market.

Check Your Progress

State whether the following statements are true or false:

6. The selection of distribution channels is determined by type of product.
7. Wholesale is the key link between manufacturer and retailer.
8An independent middleman who markets a manufacturer's entire output or all of a specified product line is called selling agent.
9. Drop shipper is a full serve merchant wholesaler.
10. Vertical conflict is arises when there isunhealthy competition among the members of the same channel.

9.12 SUMMARY

The role of distribution is getting a product to its target market. A Distribution channel carries out this assignment with middlemen performing some tasks. A middleman is a business firm that renders services directly related to the purchase and/ or sale of a product as it flows from producer to consumer. A distribution channel is the set of people and firms involved in the flow of title to a product as it moves from producer to ultimate consumers or business user. A channel includes producer, final customer, and any middlemen that participate in the process. Numerous factors need to be considered in selecting a distribution channel. The primary consideration is the nature of the target market. Others relate to the product, the middlemen, and the company itself. Retailing is the sale of goods and services to ultimate consumers for personal, non-business use. Retailers serve as purchasing agents for consumers and as sales specialists for producers and wholesaling

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middlemen. Wholesaling consists of the sale, and all activities directly related to the sale, of goods and services for resale, use in producing other goods or services or for operating an organization. Distribution intensity refers to the number of middlemen a product uses at the wholesale and retail levels in a particular territory. It ranges from intensive to exclusive. In the future, both wholesaling and retailing middlemen and physical distribution firms will face challenges to their roles in the distribution process.

9.13 ANSWERS TO CHECK YOUR PROGRESS

1. Intensive
2. Commission middleman
3. Marketing channel
4. Extensive
5. Corporate vertical marketing system
6. True
7. True
8. True
9. False
10. False

9.14 QUESTIONS/EXERCISES

Section A

1. Discuss the importance of channels of distribution
2. Distinguish between Agent Middlemen and Merchant Middlemen
3. Discuss the various types of Agent Middlemen
4. Discuss the various types of Merchant Middlemen
5. Differentiate between wholesaler and Retailer.

Section B

1. Explain the major factors influencing choice of marketing channels.
2. Discuss the various types of marketing distribution channels.
3. Discuss the important services rendered by wholesalers.
4. Explain the various types of retailers.
5. Describe the various services rendered by the retailers.

9.15 FURTHER READINGS

NOTES

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UNIT 10 SOCIAL ASPECTS OF MARKETING

Structure

10.0 Introduction
10.1 Unit Objectives
10.2 Social Aspects of Marketing
10.3 Social Responsibility
10.4 Social Functions of Marketing
10.5 Ecological Aspects of Marketing
10.6 Eco-Marketing
10.7 Eco Friendly Exports
10.8 Key Terms
10.9 Summary
10.10 Answers to Check Your Progress
10.11 Questions /Exercises
10.12 Further Readings

10.0 INTRODUCTION

A business unit is an economic institution of society and the businessmen and the marketers are members of the society and their actions and performance are the consumers, who are also members of society. Therefore, a business is something which has social implication. It exercises a definite and extensive influence on our economic and social life styles. Society-oriented marketing rather than marketing-oriented society is a basic necessity. All the marketing policies and business objectives should be framed in such a way that they would contribute liberally to the social well-being.

10.1 UNIT OBJECTIVES

- To understand the social aspects of marketing
- To discuss the social responsibility of business
- To explain the social function of marketing
- To appreciate the ecological aspects of marketing
- To understand the eco-marketing and eco-friendly exports

10.2 SOCIAL ASPECTS OF MARKETING

The social dimensions of marketing today are assuming increasing importance relative to the economic and other aspects of the subject. Marketing incurs substantial cost that society ultimately must pay. The cost of marketing is bulk large in the price that buyers

pay. Most experts say that out of each one rupee ultimate consumer spends, roughly fifty paise goes for the cost of performing marketing activities.

It is true that for some products, of course, marketing cost is a much lower proportion of the price the consumer pays - automobiles and appliances, for example, cost considerably more to make than to market. For other products, marketing cost is a much higher proportion of the price - perfume and cosmetics, for example, cost little to produce but a great deal to market. In this list soft drinks also can be included.

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Sometimes, a company can reduce its cost per unit by increasing its marketing cost, thus benefiting the consumer by making it possible for him to pay a lower price. For example, a company through increasing its publicity and personal selling expenditure may increase a product's sale and due to that the unit cost of the production may decrease.

Despite such positive aspect there are still basic questions regarding the economic impact of marketing. Especially important are those related to consumer rights and consumer welfare. For instance, it is argued that sales promotion; packaging and related techniques distort consumer perception as well as consumer rationality when it comes to the buying decision.

Marketers manipulate the control labels, products, distribution, promotion and price - in order to influence buyer behaviour. Many marketing activities aim to provide information to prospective buyers in the hope of persuading them to buy. However, critics of marketing, especially those who object to certain publicity and personal selling activities, express strong doubts about the social value of marketing role in persuasion. Their argument is that many people are hoodwinked into wasting their money on "frivolous items" that contribute little or nothing either to the buyer or to the society. Since today, growing numbers of consumers, particularly upper middle class people, have increasing amounts of discretionary income (to spend as they please) this criticism takes on added force. However, criticisms of this type are often related to questionable value judgement, for Instance decisions over frivolous items.

There is a criticism that marketing induces excessive buying. However, does have some validity, particularly when it relates to buying by low-income consumers. Some studies have shown that numerous low income people are easily persuaded to buy more than they can afford. They are gullible in accepting false and misleading claims about products at face value and they are often lured to purchase through the so called easy instalment or hire-purchase systems.

Whether the net influence of marketing on buyer and social behaviour is favourable or unfavourable, critics and non-critics both agree that such influence occurs. Because of the strong marketing emphasis placed upon such items, most Indians are buyers of toothpastes, detergent soaps, two wheelers and electronic equipments, etc. Marketing professionals argue that increased consumption makes for more business and more jobs and hence, rising incomes and higher standard of living. Marketing critics, on the other

hand, argue that higher income is of no value if it is wasted on unnecessary purchases and that material things are of no value if the buyer has little time or energy left over after working hours, to enjoy them.

The market position of the large business concerns generally reflects its potential to exercise market power. Power is also exercised through the control of channels of distribution. Of the various ways, most important are contract relationships, ownership of outlets in different levels of the distribution channel and the use of brand popularity to exert influence on customers, competitors and suppliers. Market monopoly may develop the firm as the real monopolistic concern in the field. It may affect the interests of consumers and the society as a whole.

Like commercial marketing, the primary focus is on the consumer - on learning what people want and need rather than trying to persuade them to buy what we happen to be producing. Marketing talks to the consumer, not about the product. The planning process takes this consumer focus into account by addressing the elements of the "marketing mix." This refers to decisions about 1) the conception of a Product, 2) Price, 3) Distribution (Place), and 4) Promotion. These are often called the "Four Ps" of marketing. Social marketing also adds a few more "P's." These elements constitute the marketing mix.

10.2.1 Product

The social marketing "product" is not necessarily a physical offering. A continuum of products exists, ranging from tangible, physical products (e.g., condoms), to services (e.g., medical exams), practices (e.g., breastfeeding, ORT or eating a heart-healthy diet) and finally, more intangible ideas (e.g., environmental protection). In order to have a viable product, people must first perceive that they have a genuine problem, and that the product offering is a good solution for that problem. The role of research here is to discover the consumers' perceptions of the problem and the product, and to determine how important they feel it is to take action against the problem.

10.2.2 Price

"Price" refers to what the consumer must do in order to obtain the social marketing product. This cost may be monetary, or it may instead require the consumer to give up intangibles, such as time or effort, or to risk embarrassment and disapproval. If the costs outweigh the benefits for an individual, the perceived value of the offering will be low and it will be unlikely to be adopted. However, if the benefits are perceived as greater than their costs, chances of trial and adoption of the product is much greater.

In setting the price, particularly for a physical product, such as contraceptives, there are many issues to consider. If the product is priced too low, or provided free of charge, the consumer may perceive it as being low in quality. On the other hand, if the price is too high, some will not be able to afford it. Social marketers must balance these considerations, and often end up charging at least a nominal fee to increase perceptions of quality and to confer a sense of "dignity" to the transaction. These perceptions of costs and benefits can be determined through research, and used in positioning the product.

10.2.3 Place

"Place" describes the way that the product reaches the consumer. For a tangible product, this refers to the distribution system—including the warehouse, trucks, sales force, retail outlets where it is sold, or places where it is given out for free. For an intangible product, place is less clear-cut, but refers to decisions about the channels through which consumers are reached with information or training. This may include doctors' offices, shopping malls, mass media vehicles or in-home demonstrations. Another element of place is deciding how to ensure accessibility of the offering and quality of the service delivery. By determining the activities and habits of the target audience, as well as their experience and satisfaction with the existing delivery system, researchers can pinpoint the most ideal means of distribution for the offering.

10.2.4 Promotion

Finally, the last "P" is promotion. Because of its visibility, this element is often mistakenly thought of as comprising the whole of social marketing. However, as can be seen by the previous discussion, it is only one piece. Promotion consists of the integrated use of advertising, public relations, promotions, media advocacy, personal selling and entertainment vehicles. The focus is on creating and sustaining demand for the product. Public service announcements or paid ads are one way, but there are other methods such as coupons, media events, editorials, "Tupperware"-style parties or in-store displays. Research is crucial to determine the most effective and efficient vehicles to reach the target audience and increase demand. The primary research findings themselves can also be used to gain publicity for the program at media events and in news stories.

Additional Social Marketing "P's"

10.2.5 Publics—Social marketers often have many different audiences that their program has to address in order to be successful. "Publics" refers to both the external and internal groups involved in the program. External publics include the target audience, secondary audiences, policymakers, and gatekeepers, while the internal publics are those who are involved in some way with either approval or implementation of the program.

10.2.6 Partnership—Social and health issues are often so complex that one agency can't make a dent by itself. You need to team up with other organizations in the community to really be effective. You need to figure out which organizations have similar goals to yours—not necessarily the same goals—and identify ways you can work together.

10.2.7 Policy—Social marketing programs can do well in motivating individual behavior change, but that is difficult to sustain unless the environment they're in supports that change for the long run. Often, policy change is needed, and media advocacy programs can be an effective complement to a social marketing program.

10.2.8 Purse Strings—Most organizations that develop social marketing programs operate through funds provided by sources such as foundations, governmental grants or donations.

This adds another dimension to the strategy development-namely, where will you get the money to create your program?

10.3 SOCIAL RESPONSIBILITY

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Modern business is a large and complex, catering to national and international markets. As an organ of the society, it is the responsibility of every marketer to deliver a standard of living and a standard of life-style consumers. The Society's approval is necessary for every business in order to function successfully. Marketing has had many other positive benefits for individuals and society. It has helped accelerate economic development and create new jobs. It has also contributed to technological progress and enhanced consumers' choices.

Although some have questioned the appropriateness of the marketing philosophy in an age of environmental deterioration, resource shortages, world hunger and poverty, and neglected social services, numerous firms are commendably satisfying individual consumer demands as well as acting in the long-term interests of the consumer and society. These dual objectives of many of today's companies have led to a broadening of the "marketing concept" to become the "societal marketing concept." Generating customer satisfaction, while at the same time attending to consumer and societal well-being in the long run are the core concepts of social marketing.

In practicing societal marketing, marketers try to balance company profits, consumer satisfaction, and public interest in their marketing policies. Many companies have achieved success in adopting societal marketing. Two prominent examples are The Body Shop International PLC, based in England, and Ben & Jerry's Homemade Inc., which produces ice cream and is based in Vermont. Body Shop's cosmetics and personal hygiene products, based on natural ingredients, are sold in recycled packaging. The products are formulated without animal testing, and a percentage of profits each year is donated to animal rights groups, homeless shelters, Amnesty International, rain-forest preservation groups, and other social causes. Ben & Jerry donate a percentage of its profits to help alleviate social and environmental problems. The company's corporate concept focuses on "caring capitalism," which involves the product as well as social and economic missions.

Social marketing was "born" as a discipline in the 1970s, when Philip Kotler and Gerald Zaltman realized that the same marketing principles that were being used to sell products to consumers could be used to "sell" ideas, attitudes and behaviors. Kotler and Andreasen define social marketing as "differing from other areas of marketing only with respect to the objectives of the marketer and his or her organization. Social marketing seeks to influence social behaviors not to benefit the marketer, but to benefit the target audience and the general society." This technique has been used extensively in international health programs, especially for contraceptives and Oral Rehydration Therapy (ORT), and is being used

with more frequency in the United States for such diverse topics as drug abuse, heart disease and organ donation.

10.4 SOCIAL FUNCTIONS OF MARKETING

There is continuing debate among economists regarding the effects of concentrated marketing power and what should be done about it. Since, concentrated market power is atleast a threat to the desired goals associated with the ideals of competition, it is useful to consider the alternatives, the major ones being (1) Government regulations and control (2) Government ownership (3) countervailing power (Buyer monopoly) (4) partnership, co-operation and planning between Government and large corporations and (5) dissolutions divorcement and divestiture of giant business concerns (dissolving the giant organisation into several parts)

Special interest is being shown on the concept of "de-marketing" now-a-days. It is discouraging customers in general or a certain class of customers in particular on either a temporary or a permanent basis. In the context of marketing, it has relevance's for discouraging those aspects of marketing that result in appreciable environmental disruption or other social costs. Such action which would probably involve a combination of pricing and taxation could, of course be extended to the entire field of fuel and energy consumption as well as other resources that are now or are likely to be in the near future, in short supply. If successful, it might even prevent the untimely depletion of some sources.

Sometimes criticized for its impact on personal economic and social well-being, marketing has been said to affect not only individual consumers but also society as a whole. This section briefly examines some of the criticisms raised and how governments, individuals, and marketers have addressed them.

Criticisms have been leveled against marketers, claiming that some of their practices may damage individual welfare. While this may be true in certain circumstances, it is important to recognize that, if a business damages individual welfare, it cannot hope to continue in the marketplace for long. As a consequence, most unfavourable views of marketing are criticisms of poor marketing, not of strategically sound marketing practices.

Others have raised concerns about marketing by saying that it increases prices by encouraging excessive markups. Marketers recognize that consumers may be willing to pay more for a product—such as a necklace from Tiffany and Co.—simply because of the associated prestige. This not only results in greater costs for promotion and distribution, but it allows marketers to earn profit margins that may be significantly higher than industry norms. Marketers counter these concerns by pointing out that products provide not only functional benefits but symbolic ones as well. By creating a symbol of prestige and luxury, Tiffany's offers a symbolic benefit that, according to some consumers, justifies the price. In addition, brands may symbolize not only prestige but also quality and functionality, which gives consumers greater confidence when they purchase a branded product. Finally,

advertising and promotions are often very cost-effective methods of informing the general public about items and services that are available in the marketplace.

10.5 ECOLOGICAL ASPECTS OF MARKETING

Society is increasingly concerned with ecology and the need for preserving the environment from further human pollution. Business and industry are leading contributors to the environmental pollution. Marketers, in particular, must accept responsibility for certain aspects of environmental pollution.

Packaging, a prominent feature of modern marketing, is a serious pollutant. Not so long ago, numerous products such as butter, rice, coffee and soap – were sold from bulk stock in unpackaged form. In attempting to differentiate their brands and develop buyer preferences, marketers of these products joined the "packaging revolution". Other marketers, who previously sold their products in reusable containers, such as milk and soft drinks, have switched to using disposable or through away packages. Complicating the problem are the disposal methods - one, incineration, is itself an atmospheric pollutant. Some types of packaging - plastic for instance - appear almost impossible to recycle or disintegrate.

Marketing also adds to environmental pollution through its promotion of disposable products - such as, drinking cups, bottles and so fourth. Society on the whole seems to prefer the added convenience of disposability, but increasingly voices objections to the added pollution involved. Unfortunately, disposability often makes it possible to reduce the prices of the consumer products. Best example is soft drink industry.

Many critics contend that marketing contributes to environmental pollution in still other ways. Some say that marketers adversely affect the appearance of the landscape through road side advertising and obstruct natural beauty with outdoor billboards. Others object to pollution of the airwaves through excessive numbers of commercial advertisements on radio and television programmes.

Since marketers have not often bothered to investigate society's reactions to various aspects of their marketing practices, society has often taken the initiative in communicating its displeasure through various forms of social pressure against offenders. The mildest form of social pressure is public opinion against the offenders. The strongest form is restrictive legislation outlawing the product or the marketing activity formed upon by society - particularly in the field of imports and exports. EXIM Policy can be framed accordingly.

10.6 ECO-MARKETING

According to the American Marketing Association, **green marketing** is the marketing of products that are presumed to be environmentally safe. Thus, green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising. It is also called

Environmental Marketing and Ecological Marketing (Eco-Marketing).

Marketing plays a vital part in introducing new ecological products/services and promoting new ways of living, which aim at the reduction of energy and material flows. The concept of eco-marketing contains four levels of action: transformative, normative, strategic and operative eco-marketing.

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Fig.10.1: Four levels of Eco-Marketing

The term "Marketing" is interpreted as a dual concept: On one hand, Marketing is like any other function of the company, i.e. production, procurement and finance. On the other hand, Marketing means market and customer orientation, which effects the company as a whole.

In some ways the new concept of eco-marketing tries to look into the future challenges of environmental management respectively environmental marketing management. That is why it is labelled "Eco-Marketing".

The eco-marketing deals with the transformative and normative levels of eco-marketing. The idea of transformative eco-marketing is to transform existing markets and to develop ecological markets by changing the political and public set-up. Normative eco-marketing questions basic assumptions and concepts of marketing. Moreover, the strategic and operative levels of eco-marketing are re-interpreted: the ideas of the ecological mass market (instead of eco-niches) and performance sales (instead of products) are central to the new integrated concept of eco--marketing.

10.6.1 Transformative Eco-Marketing:

In most cases marketing and ecology do not easily go together. Often, eco-products and services remain in niches (e.g. solar energy and organic food products) and many ecological innovations are not competitive at all. There are several reasons why ecological products and services do not succeed in the market: higher prices, low quality, image problems, unavailability, and incredibility and so on. Partly, good and credible eco-marketing may help to overcome these barriers. However, even this kind of eco--marketing is limited due to the political and public framework, which prevents far-reaching ecological innovations and solutions. One of the main barriers are higher prices for eco--products as compared

Check Your Progress
Fill in the Blanks:

1. The application of marketing theories to social welfare is known as ——————.
2. The responsibility of business toward ——— is to supply quality goods at right time, at right place and at reasonable price.
3. Customer satisfaction and societal well-being are the core concepts of ———.
4. The term 'Caveat Emptor' means let the ————— beware.
5. Social concept of marketing was given by ——————.

to conventional products. A transformation of the political and public set-up may change the price relation between ecological and unecological products (take, for example, energy taxes and ecological tax reform).

Transformative eco-marketing actively seeks to transform existing markets and develop new ecological markets by changing the political and public set-up. Thus, it goes beyond other concepts of eco-marketing which take the given political and public for granted. In the new concept of eco-marketing the transformation of the political and setting is an integrative part of eco-marketing.

10.6.2 Normative Eco-Marketing

Normative eco-marketing is the "bridge" between the macro level of transformative eco--marketing and the micro level of strategic and operative eco-marketing. Normative eco--marketing fulfills at least **three different functions:**

Firstly, normative eco-marketing fulfils a **legitimating function**. If eco-marketing actively seeks to transform existing markets and to develop ecological markets by influencing the political and public set-up, the question remains, what the criteria are to do so. Procedural criteria of transformative eco-marketing are, for example, openness, transparency and participation of stakeholders. Secondly, normative eco-marketing has to develop visions of an ecological society and lifestyles, which serve as a kind of orientation for transforming existing markets, developing new ecological markets and for implementing ecological marketing strategies (**orientation function**). Thirdly, normative eco-marketing takes a critical look at the basic assumptions of marketing in general and eco-marketing in particular (**critical function**). Basic notions of marketing are, for example, markets, products, consumers and needs. In the light of increasing ecological problems eco-marketing has to raise questions of "sufficiency" and ecological lifestyles: What kind of needs is fulfilled in modern society? Which needs are not fulfilled? Do material goods lead to happiness in life? To which extent can we fulfill our needs with material goods? Is there any other way to fulfill human needs? What is sufficient? Can eco-marketing help promoting a less material- and energy-consuming life? What are the market implications of ecological lifestyles? Such questions may question existing production and consumption pattern. On the one hand it is a threat to existing products and markets; on the other hand, it may lead to new more ecological business opportunities.

10.6.3 Strategic and Operative Eco-Marketing:

Most concepts of eco-marketing focus on the "green consumer", which is sensitive to ecological issues and which is willing to pay a higher price for eco-products. From the ecological point of view this approach is limited insofar as the rest of the market remains unecological. Furthermore, the idea of selling the performance of products instead of selling the products themselves seems to fruitful for an integrated concept of eco-marketing.

Another opportunity to tap new market opportunities and to increase the eco-efficiency of products is to intensify the use of products. Products vary in the intensification of use.

Some products are used quite often; others are hardly used at all. Take, for example, electric drills or gardening tools: These kinds of products are usually not used daily or weekly; in general, they are only used occasionally. Most of the time, these products are stored away. We may ask: Is it really necessarily that each household possesses electric drills and each gardener owns a set of gardening tools on her or his own? Isn't it less expensive and more ecological to rent or to share such kind of products? What is the ecological rationale behind it all?

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The ecological reasoning is as follows: The more products are shared, the less products have to be produced and the less is the environmental impact. Consequently, the shift from single users to multiple users reveals a high potential for environmental reductions. Which products are suitable for sharing and which are not? The main characteristics of products suitable for sharing are: a relatively high price, low product usage, easy and instant access as well as simple handling. Taken the current business environment for granted, products such as coffee machines and hair-dryers, which are fairly cheap, do not qualify for performance sales. What are the market potentials for performance sales, especially regarding consumer marketing as opposed to industrial marketing?

Beside environmental aspects, which are the advantages and disadvantages of sharing? Which are the barriers to overcome to make performance sales successful? And which are the main target groups of performance sales? According to the German study, the advantages of sharing washing machines, for example, are: to save space, to save time and trouble with repairs and maintenance, to do good for the environment, to save money, and to reduce noise emissions. The main disadvantage of sharing washing machines is inconvenience since ownership goes along with convenience and freedom. However, this perception may be subject to change. It is a result of habits and modes of washing which are not reflected.

Check Your Progress

State whether the following statements are true of false

6. The responsibility of business towards employees is to provide fair wages and salaries.
7. The responsibility of business towards government is to pay taxes honestly and in times.
8. Social marketing technique is used to achieve the society's satisfaction as a whole as against consumer self-interest.
9. Social marketing seeks to influence social behaviour to benefit the society.
10. Marketing does not contribute to environmental pollution.

10.7 ECO FRIENDLY EXPORTS

The term "eco-friendly" is used to describe activities which are good for the environment. It is also called **"Environmentally friendly" or "Nature or Green friendly". Eco-Friendly Products** refer to goods and services, laws, guidelines and policies considered to inflict minimal or no harm on the environment. There are a range of ways in which activities can be eco-friendly, ranging from products which are constructed in an environmentally friendly way to making lifestyle changes which are designed to benefit the environment.

To make consumers aware, environmentally friendly goods and services often are marked with eco-labels before they are exported. But because there is no single international standard for this concept, the International Organization for Standardization considers such labels too vague to be meaningful.

People, especially exporters, engage in eco-friendly activities because they are concerned about the health of the environment. Environmental issues were first pushed to

the forefront of the collective consciousness in the late 1900s, when people realized that their activities were having a negative impact on the environment. Pollution, rampant use of natural resources, and other activities were questioned in light of information about how these activities hurt the environment, and people began to look into more eco-friendly ways of living and doing business. Many savvy companies realized that investing in green product development would pay off, and lines of eco-friendly products can be found in many regions of the world today as a result. These products are usually made in factories which are environmentally friendly, such as facilities built from recycled materials which use solar panels for power, and they are made from components which are also good for the environment, like plant-sourced ingredients for soaps, or recycled metal for electronics. Product packaging, advertisements, and other materials may also be eco-friendly.

Strictly speaking, eco-friendly export products still have an impact on the environment, but the impact is greatly reduced when compared to conventionally produced products. In some cases, eco-friendly products may even have a positive benefit, depending on how the company does business. Many such products are also aimed at lifestyle changes which benefit the environment, so even if the product itself is not totally neutral, the actions undertaken by the consumer after buying the product are beneficial. For example, eco-friendly light bulbs require energy and resources to make, but they save energy once they are installed in a home.

Wood is the most precious part of man's life. Wood has always attracted man since ages. Ever since his existence man is influenced by the elegance of wood. In the past, wood was the source of fire & energy. The enormous use of wood has led to deforestation, resulting in Greenhouse Effect and Global Warming. Fortunately, the concern for healthy environment has prompted man to think again and again on the use of wood. Today, the Global Warming and Greenhouse Effects have started threatening man to stop the overuse of wood. But, what do we do to make furniture then? What are the alternatives? Furniture is the essential part of our home. The thirst for beauty and elegance has always encouraged man to find charming alternatives to wood. Today, there are many alternatives to wooden furnitures, which are eco-friendly furnitures. Eco-friendly furnitures are aimed towards less use of wood and more use of waste products and other products, the use of which are not a threat to our environ.

Eco-furnitures, meant for exports, made with endurable materials can be easily separated and re-recycled, representing an easier, softer way to go green in your home. And the possibilities are endless and enthusing. Today, there are desk with a removable top and legs that can be disassembled and put into a recycling bin in less than fifteen seconds to change its design. There are chairs made from straw particleboard and recycled steel. Currently, the industry and the market is packed with Eco-furnitures made of wheat panels, sunflower board, aluminum, polywoods, wrought irons, metals, stones, post consumer materials, all of which are available in attractive designs and colours.

10.8 KEY TERMS

- **Social Marketing**

  Social marketing seeks to influence social behaviors not to benefit the marketer, but to benefit the target audience and the general society.

- **Social Responsibility**

  It refers to the commitment on the part of a company to improving the well-being of society.

- **Eco-Marketing**

  It refers to marketing of products that are presumed to be environmentally safe.

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10.9 SUMMARY

Social responsibility implies responsibility to society beyond the basic economic responsibility of efficiency and profitability. It requires marketing managers to consider whether their action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony. They should also accept responsibility for certain ecological aspects like environmental pollution.

10.10 ANSWERS TO CHECK YOUR PROGRESS

1. Social Marketing
2. Customer
3. Social Marketing
4. Buyer
5. Philip Kotler
6. True
7. True
8. True
9. True
10. False

10.11 QUESTIONS/EXERCISES

Section A

1. Explain briefly the social aspects of marketing.
2. What are the social responsibilities of a business firm?
3. What are the features of eco-marketing?
4. What do you mean by eco-friendly exports?

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Section B

1. Discuss in detail the ecological aspects of marketing.
2. Discuss the four levels of eco-marketing.

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